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ROGER PEARSON
General Editor

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GORBACHEV, CASTRO AND NATIONAL LIBERATION IN LATIN AMERICA

Dr. Robert H. Riefe
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During his April 1989 visit to Havana Mikhail S. Gorbachev called for an end to all outside military aid to Latin America. The Soviet leader also declared that the U.S.S.R. was "...categorically opposed to any theories or doctrines which seek to justify the export of revolution or counter-revolution and all forms of interference in the affairs of sovereign states...."[1] While he provided no elaboration, Gorbachev's statement raises doubt about a basic tenet of Leninist doctrine, *i.e.* that the Soviet Union has the right and responsibility to aid revolutionaries everywhere in their struggle against external and internal imperialist forces.

Gorbachev's motives for making such an unexpected statement are no doubt complex ones. Of late U.S. negotiators have sought to link Soviet behavior in the Third World with ongoing arms negotiations as well as with talks aimed at promoting more extensive commercial, scientific and technical exchanges between East and West.

In addition, the choice of Havana as the site from which to make his declaration is instructive. During the 1960s there was considerable tension between Moscow and Havana over Fidel Castro's insistence on supporting Latin American guerrillas often over the objection of local Communist parties which looked to the Soviet Union for guidance and support. While the pressure eased in the 1970s as both the Soviets and the Cubans shifted their emphasis, Castro has doggedly refused to surrender his role as guru to guerrillas. Even if Gorbachev is sincere in his offer to reduce tensions in the Third World, Castro may remain an obstacle to that end.

It is noteworthy that the Cuban leader's only response to Gorbachev's announcement was a diatribe aimed at the U.S.

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for intervening in Central America. Moreover, Castro implied that he intended to continue business as usual in training and equipping Latin American guerrillas. It is a role that the Cuban leader has long cherished. The part of quintessential revolutionary suits his sense of high drama and casts him in heroic proportions. In many respects it is more gratifying to be Godfather of "national liberation"* than to solve in a fundamental and systematic way the countless problems that plague Cuba.

However, the image of an exasperated parent attempting to reason with an unruly child should not be overdrawn. The differences in temperament and technique which characterize the two leaders are considerably less important than the fact that they continue to share a common set of values. As well as being his own man in a sense that no Eastern European leader can pretend to be, Castro has served as an effective Soviet surrogate for most of the thirty years he has had a relationship with Moscow.[3] Gorbachev's declaration to the contrary notwithstanding, both men continue to view the Third World as the critical mass where over the course of time the balance of power will shift in favor of "socialism."

In the past the essential difference between the Soviets and Cubans regarding support to radicals in Third World countries has been one of degree, not of principle, the Soviets having made serious efforts to conceal their role, Castro having often flouting his. The central fact is that since the early 1970s Cuba and the Soviet Union have coordinated their efforts in supporting national liberation movements.

As U.S. negotiators expand discussions with their Soviet counterparts, Washington must insist on tying Soviet behavior in the Third World, and especially in Latin America with proposals to facilitate economic and technical exchanges which Moscow is anxious to realize. This insistence should be

* As explained later in this article, the term "National Liberation" is here used in the Marxist-Leninist context. While nationalism is inherently antithetical to the goals of international socialism, Marxist-Leninist theory has adopted the phrase "wars of national liberation" to refer to revolutionary struggles aimed at subverting Third World nations on the pretext that the are freeing the workers from the grasp of "capitalist imperialism." (Ed.)

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be extended to Cuba and beyond, specifically to Nicaragua. Gorbachev may well plead an inability to affect Cuban policy, citing Castro's presumed penchant to go-it-alone. But the fact is that the Cuban leader has been much more the junior partner than the Lone Ranger for the past two decades. Moreover, Castro's problems are so deep-seated and his need for sustained Soviet support may now be so profound, that Moscow may now be in a position to exercise more influence over him than ever before. The Nicaraguan situation is analogous with the Sandino National Liberation Front (FSLN), Sandinistas, confronting an increasingly unstable future. In a word, the Kremlin may be capable of restraining its Latin American clients.

The Bush administration should resist the siren songs of a covey of academicians and those Congressmen who for years have pressed for a Washington-Havana rapprochement. Relief for beleaguered Central American governments should be sought in Moscow not in Havana as long as Castro, the last of the Stalinists, remains in control. Unless U.S. pressure is sustained at the conference table, external support to Central American guerrillas is likely to spread. The Jose Marti National Liberation Front (FMLN) will persist in its efforts to overthrow a constitutionally based and popularly elected government in El Salvador despite the general lack of support of the guerrillas in the country.[4] The Guatemalan insurgency will in all probability intensify. And Honduras, a close ally of the U.S., is likely to be the next battleground. Renewed efforts in South America will no doubt be made on a target-of-opportunity basis as they have in the past.

While insurgencies might well exist in a number of Latin American countries as expressions of discontent, the factor of external support threatens to turn all of Central America into a war zone. Washington now perhaps for the first time has the capability of forcing Moscow to choose between *perestroika* and its role as the ultimate sponsor of national liberation in the Western Hemisphere.

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The Doctrine of National Liberation

National liberation doctrine as it pertains to what is now known as the Third World was not an element of Karl Marx's philosophical system. Although his vision of the revolution evolved between the mid-1840s, when he became a serious student of history, and his death in 1883, preindustrial societies continued to exist on the periphery of his focus. His attention in the main was fixed on advanced industrial societies, essentially those of Western and Central Europe. One of the consistent elements of his analysis was his insistence on the necessity for violent revolution. While in his old age he conceded that there might be exceptions to the rule in such countries as the U.S. and the Netherlands, he repeatedly emphasized the point that the exploiters would not simply hand over power to the proletariat. It would have to be wrested from them which would necessarily provoke violence.

Also, Marx emphasized the importance of international revolution, beginning, he presumed, in Europe and spreading to adjacent areas from where it would become global in character.

Finally he stressed the need for proletarian solidarity which, he believed, would prove to be more potent than the forces of nationalism. While he did not address the question of whether revolution could be exported, as such, his arguments on the need for the unification of the working class everywhere strongly suggested that after the revolution in country X, its newly ruling proletariat would come to the aid of revolutionaries in Country Y. In fact in the wake of the Paris Commune of 1871, during an interview with a reporter from the *New York World*, Marx said that the International Workingman's Association, which he had founded and which came to be known as the First International, could provide the "necessities" to striking workingmen from a common purse.[5] Here, it would seem, was a short step to the idea of the external support for revolution.

Marx' principle of solidarity developed over time into the

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doctrine of proletarian internationalism which came to be defined as "...the ideology of internationalism, of the solidarity of all workers.... and the opposite of bourgeois nationalism..."[6] This principle was of necessity to remain something of an abstraction until after the Bolshevik seizure of power in Russia in October 1917.

Vladimir Ilich Lenin would hardly have become the extraordinary revolutionary he turned out to be had he applied the writings of Marx and Engels as a guide to action. His genius at organization and his unfailing audacity proved to be the keys to his success. A year before the Bolsheviks grasped power, Lenin's exegesis on imperialism offered at once an explanation of the dogged persistence of capitalism in spite of its "fatal" contradictions and an analysis of the systematic exploitation by the industrial powers of the backward portions of the world.[7] By focusing attention on colonial areas, Lenin provided his followers with a way of looking at the world which was distinct from that of Marx and Engels.

Lenin suggested that the capitalist chain which by World War I encircled the world was likely to break at a weak link, a backward exploited area, rather than in a country where the productive forces were nearly fully developed. In addition to stressing the potential importance of the underdeveloped world, Lenin's analysis of imperialism helped to explain why the Russian Revolution was a success while later attempts in more highly industrialized Central Europe turned out to be failures.

A standard latter-day Soviet interpretation of national liberation emphasized the questionable point that the imperialist crisis had begun with the Bolshevik seizure of power. "The October Socialist Revolution not only ushered in the era of proletarian revolutions, it also initiated in (sic) the colonial system of imperialism, a new period in the history of the oppressed peoples of the East."[8] Aside from such abstractions Moscow has studiously avoided addressing the subject of national liberation. "...Soviet scholars have written little about the specifics of national liberation

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movements, and virtually nothing on the U.S.S.S.'s commitments, connections, and operational involvement. Less information is to be found in Soviet sources on the U.S.S.R.'s relations with national liberation movements than on any other aspect of its policy in the Third World...."[9]

The Kremlin's unwillingness to speak with candor on this delicate subject is understandable. As a superpower the Soviet Union has to maintain diplomatic and commercial relations with a wide variety of Third World regimes, many of which are deeply suspicious of Moscow's motives and methods. The less said about the subject, the better.

The Kremlin and the National Liberation Movement

Within a year after the Bolsheviks came to power the infant Soviet republic found itself barely afloat in a perilous sea. Pressures engendered by civil war and foreign military intervention stimulated Lenin to look abroad for relief. Seizures of governments were achieved in Hungary and Bavaria in the wake of the collapse of the Austro-Hungarian Empire but were negated by counter-revolution within a few months. Efforts to generate revolutions in Britain and the U.S. were stillborn. Perhaps the most serious blow to Lenin's hopes was the failure of the German Communists to attain power. European disappointments led the Soviets to summon delegates to what was announced as the inaugural meeting of the Third or Communist International (Comintern) which was convened in Moscow in March 1919. If revolution could be fostered elsewhere, the Russian Soviet Republic would no longer be isolated, a pariah in a hostile capitalist world. Departments were elected and a manifesto was issued. Except for the presence of important European delegates, the meeting was something of an exercise in public relations, comprising many representatives who were at hand but who did not have meaningful credentials from their respective affiliates. Nevertheless, the importance of the congress should not be slighted. All over the world Communist parties sprang up, affiliated with the Comintern, and accepted the political hegemony of Moscow.

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Appeals to the peoples of the "East" had first been made only a few weeks after the erection of the Soviet government. As early as December 1917 Lenin and Stalin announced to the Moslems of Russia and the East that the new regime was dissolving the Tsarist treaties which had partitioned Persia and Turkey. In addition the declaration urged the followers of Islam everywhere to cast off the "imperialist yoke."[10] While Soviet attention was still riveted principally on events in Europe, the Bolshevik leaders did not overlook the importance of the Middle and Far East. Shortly after the general armistice of November 1918 Stalin issued a press release which described how the imperialist states of the West had enslaved the peoples of the East. "... While fighting in Europe the imperialists have never ceased to think of China, India, Persia, Egypt and Morocco, because the East was always the real point of issue...."[11]

After a series of disappointments both in Europe and Asia the Second Comintern Congress in July 1920 decided not to rely further on "spontaneous" efforts on the part of revolutionaries to attain control but to initiate a worldwide propaganda campaign to prepare the ground for world revolution. The executive committee which designed the effort was viewed as the prospective center of the global Soviet government-to-be. Emphasis was placed on the Middle East and Asia because Russia was in many ways a part of both geographical areas and because the peoples of the East were judged to be especially restive. However, except for China where Russian Communism was looked upon with some favor by the left-wing of the ruling Kuomintang Party, Marxism – in part because of its atheistic content – ran into difficulties, especially in the Islamic world.

With the adoption of the New Economic Policy (NEP) in March 1921, which represented a tactical retreat from the control and management of the economy by the state, the Soviet republic turned inward in an effort to overcome the calamitous effects of world war, revolution, civil war and foreign intervention. Soviet foreign policy came to operate on two tracks. Conventional instruments were employed to

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enable Moscow to break out of its isolation by establishing diplomatic and commercial relations with much of the rest of the world.

Save for Mexico, however, this diplomatic offensive did not succeed in Latin America since no other country of that region recognized the Soviet Union during the 1920s. Nevertheless, Moscow encouraged Comintern affiliates, including those representing Latin American countries, to adopt policies which were designed to advance Soviet objectives. NEP at home and a united front policy abroad during the 1920s were calculated to enable the Soviets to consolidate their power before moving ahead to socialize their country and to export the revolution.

In the early 1920s the Comintern dispatched M.V. Roy, one of the founders of the Communist Party of India, and Sen Katayama, father of Japanese socialism, to open a regional headquarters in Mexico City which was designed to aid in the organization of Communist parties throughout Latin America and to coordinate their activities.

In addition, after the Sixth Comintern Congress in 1928 the South American Secretariat was shifted from Moscow to Buenos aires and later to Montevideo where it was staffed with non-Latin Americans which did not greatly facilitate responsiveness on the part of affiliating parties. Nonetheless, regional meetings were conducted on a regular basis with the objective of coordinating the programs of the several parties.

Overseeing the plans and activities of the Communist parties of the Caribbean Basin seems to have been a task which was shared by the Mexican office and Comintern officials in New York who were serving as advisors to the Communist Party of the United States.[13]

Communism had become sufficiently influential in various labor union movements by the mid-1930s, particularly in the Southern cone of south America, to alarm Washington. After Pearl Harbor the FBI dispatched special agents to a number of U.S. embassies in the area where they were instructed to collect information on Communist activities as well as those of the Nazis.[14]

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During the decades of the 1920s and 1930s Latin American Communist parties served principally as executive instruments of Soviet foreign policy. What was good for Moscow was good for Mexico City or Montevideo. Accordingly, when the Soviets did an about-face and signed a non-aggression treaty with Hitler in August 1939, Communist parties throughout the world were expected to support the new alliance. The results in Latin America as well as elsewhere were profound, memberships declining sharply with many intellectuals deserting the cause. During this period Latin America was not viewed as a likely area for the advancement of national liberation. Unlike the peoples of Asia and Africa, Latin Americans had experienced a successful revolution against colonialism more than a century earlier. Moreover, Moscow was too preoccupied with domestic problems and survival in a disintegrating world to expend efforts to foster revolution in an area as remote and alien as Latin America.

After the defeat of Germany and Japan, however, a number of factors favored the expansion of Communism if not immediately in the Western Hemisphere. Using a variety of tactics, including the threat to unleash the Soviet army, Moscow absorbed an empire in Eastern Europe which greatly enhanced Soviet confidence in further gains elsewhere. With the subsequent breakup of European empires in Asia and Africa, new inviting opportunities beckoned.

While the Comintern was dissolved in 1943, mainly as a sop to Moscow's Western allies, the machinery for managing the international Communist movement remained largely intact. Despite the disappearance of the organization, the functions of the central committee department which dealt with foreign Communist parties remained largely unchanged.[15]

By the late 1940s the Soviets were committed to the support of national liberation in several Asian countries. Later Africa became a testing ground. Latin America remained a backward area in terms of national liberation.

In September 1947 Moscow set up the Communist

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Information Bureau (Cominform) as a successor organization to the defunct Comintern. Headed by Andrei Zhdanov, a long time confederate of Stalin's, it was created to ensure effective coordination of the Communist movement. This was accomplished in part by the use of the Cominform journal, *For a Lasting Peace, for a Peoples' Democracy*, in which were published authoritative articles that addressed the needs of specific parties, and by Cominform sponsorship of international and regional meetings. Evidence of the effectiveness of the effort is demonstrated by the fact that Latin American Communist parties without exception shifted in 1948-1949 from a wartime united front posture to one of unrelieved hostility to the U.S. and its Western allies. This shift by the parties did not necessarily involve the adoption of hardline policies at home. No further proof is needed to show that the Communist parties of Latin America were first and foremost tools of Soviet policy and after that, if at all, revolutionary organizations in their own right.

The earliest instance in which Moscow appears to have played a role in a putative Latin American revolution occurred in Guatemala in the early 1950s where opposition to a rightist dictatorship resulted in the formation of an extreme left-wing government with a distinct Communist flavor under President Jocobo Arbenz. With his approval the Communists exercised control of the themes broadcast by the National Radio Station and published in the official government daily newspaper, *Diario de Centro America*. In late 1953 the Communists sponsored a "front of democratic parties" with the expressed intention of setting up a "people's democracy." However, in July 1954, before the front could consolidate power, a group of retired army officers and civilians, reportedly aided by the U.S. Central Intelligence Agency, launched an assault from neighboring Honduras which resulted in the overthrow of the Arbenz government. At a critical moment a majority of high ranking military officers came to the support of the invaders.[16]

It is difficult to measure the extent of Soviet

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involvement in the effort to erect a "people's democracy" in Guatemala. However, as early as 1922 the Comintern representative in charge of Latin American affairs described the Guatemalan Socialist Workers Unification Party which was to become the Guatemalan Communist Party the following year as an effective organization which deserved Comintern support.[17] After affiliating with the Comintern in 1924, the Guatemalan Communist party appears to have been a model organization. Given Guatemala's contiguity with Mexico and the Mexican tradition of providing refuge for Central American extremists, functionaries of the party without doubt had a close relationship with members of the Soviet diplomatic mission which had opened its doors in 1923. Accordingly, it is highly probable that Moscow played a significant role in the decision to form the "people's democracy."

This event was obviously not a classical example of Soviet support of a national liberation movement which was attempting to overthrow an established right-wing government, but an effort to aid an essentially indigenous element to bring about a full-fledged socialist state. The Soviets played no apparent role in the futile effort to frustrate counter-revolution.

Although the Cominform was dissolved in 1953, Moscow continued to rely on a variety of devices to ensure effective coordination, included among which was the "World Marxist Review," published in Prague in more than twenty languages. Travel to Soviet Bloc countries was commonplace and a Communist leader in Burma or Bolivia had no excuse for misconstruing Soviet guidance.

Enter Cuba

At almost the same time as the attempt to revolutionize Guatemala was being scuttled, Fidel Castro was plotting an attack on a military installation in the Oriente Province of Cuba. The seizure of the Moncada Barracks was meant to initiate armed struggle against the dictatorship of Fulgencio Batista. Evidence strongly indicates that the Cuban

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Communist Party and, by extension, Moscow had no role in the preparation and execution of the assault.[18]

In fact after the failure of the attack a harsh criticism of "putschism" and adventurers was published in the *Daily Worker*, organ of the Communist Party of the U.S. since the Cuban Communists were not permitted to print or distribute material on the island. Nor did the Communists have more than a marginal role in Castro's subsequent victorious military campaign, 1956-1959.[19]

Between the collapse of the Batista government on 1 January 1959 and the missile crisis of October 1962, Castro had little time to concern himself with national liberation elsewhere. The abortive Bay of Pigs invasion accelerated a process in which Havana moved ever closer to Moscow and away from Washington and the capitals of Latin America save for that of Mexico city. In the wake of the missile crisis the Kennedy-Khrushchev agreement in effect made the Soviets the guarantor of the Cuban Revolution. Thereafter Castro spoke out on the subjects of proletarian internationalism and national liberation while initially denying that Cuba intended to export its revolution, something it was probably incapable of doing until the mid-1960s.[20]

From the Soviet vantage, a Cuban client offered a unique opportunity to further the revolution in a geographic area where the U.S. had traditionally exercised hegemony. Unlike a Gomulka or an Ulbricht, Castro enjoyed a hero's status throughout the Third World and especially in Latin America. Following his improbable success, millions of ordinary people were caught up in a wave of expectation.

On the other hand, almost every step Castro took in late 1961 and early 1962 had the effect of raising the level of concern in Washington. His holding the American ambassador at arm's length, expropriating property owned by U.S. companies and nationals, and defining his radical philosophy in ever bolder terms, while signing military and commercial agreements with Moscow, were fundamental causes of the rupture in U.S.-Cuban relations.

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Castro's early visits to the Soviet capital proved to be highly dramatic. Tall and athletic looking, adorned in his combat uniform and sporting a full beard, he appeared as the quintessential revolutionary. Surrounded by Soviet bureaucrats in ill-fitting business suits who were nearly half a century removed from the experience of their own revolution, or by Eastern Europeans who had been raised to power by Soviet tanks and bayonets, the Cuban leader cut an heroic figure. He was different and he played his role to the hilt. He alone injected new life into the meaning of socialist revolution.

During the youthful phase of the Cuban Revolution, however, all was not sweetness and light between Castro and the Cuban Communists and, by extension, the Soviets. Differences which had their roots in the pre-revolutionary period erupted into a public dispute. They were to take several years to repair and when an accord was finally reached, it was defined on Castro's terms. Some six months before the missile crisis the Cuban leader turned on elements of the Communist party which had been coopted into the Integrated Revolutionary Organizations. Attacking by name Anibal Escalante, a Communist leader, as one who abused "...the confidence invested in him when he was given his job and tried to create an apparatus to pursue [separate] ends...," Castro lashed out against factionalism. He further accused Escalante of "... sectarianism which took the form of a yoke, an army of trained functionaries not a free association of true revolutionaries...."[21] Escalante was then dismissed from the directorate of the organization.

Despite what must have been a strain engendered by Castro's assault, Moscow said nothing in defense of its old comrade. In fact the following month the Soviets elevated Cuba to a more advanced position among states on the road to socialism. In a listing of May Day participants, which was always an esoteric indicator of status, Cuba occupied a position between Czechoslovakia and Yugoslavia.[22]

Despite Castro's attack on Escalante and some of his colleagues who may have been acting under instructions from

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Moscow to achieve control of the revolution, the Soviets could not seriously contemplate making an effort to hold Castro to the same orthodox standards as they employed with their surrogates in Eastern Europe. First of all, he had made his own revolution nearly half a world away from the Soviet presence and without Moscow's permission or provision. What Nikita Khrushchev may have said to Castro is unknown. However, it is unlikely that even the rashest of Soviet leaders dared to chastise the Cuban, let alone to threaten him. There is no evidence that the Soviet suggested cutting off or even reducing aid to Cuba. Moscow simply had too much to lose to contemplate such a course. Because of Castro's actions, Cuba had become the first Soviet ally in the Americas. The island lay athwart vital sea lanes radiating out from the Panama Canal, its northwest coast a mere ninety miles from Key West, Florida. Because of its proximity to the U.S., Cuba was to become an important listening and observation post from which to monitor Washington's plans and activities. Moreover, the island was soon turned into a political and military platform from which the Soviets would be able to project power throughout the hemisphere. Finally, the Soviets must have viewed Cuba early on as the ideal instrument for affecting the outcome of national liberation struggles in Latin America. The fate of Escalante and a few dozen of his companions must have seemed a small price to have paid for a fraternal relationship with Castro.

While the resolution of the missile crisis created tensions between Moscow and Havana in the short run, it significantly strengthened the alliance in terms of extended Soviet commitments to the Cuban military and economic systems.

Between the missile crisis and the overthrow of Khrushchev in late 1964 was a period of orthodoxy for Castro. Although the Sino-Soviet crisis had erupted into the open in 1964, the Cuban leader took a strong stance in support of the Kremlin after the briefest of flirtations with Peking. Castro had to have realized that any attempt on his part to play a China card was likely to explode in his face. After Khrushchev's political demise and during the period

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of uncertainty which accompanied the transfer of power in the Soviet Union, Castro agreed with Moscow and various Latin American Communist parties not to sponsor independent liberation movements in their countries despite his growing capability to do so.[23]

The agreement provided for Cuban support to freedom fighters in Venezuela, Guatemala, Honduras, Colombia, Paraguay and Haiti. Elsewhere the Cubans deferred to the Soviet design of dealing only with Communist parties, almost all of which were operating as purely political entities.[24]

The accord also led to a public debate between Peking and Havana which ended any realistic prospect Mao Tse-tung had of exploiting the radical left in Latin America at the expense of the Kremlin. Although pro-Chinese organizations arose in a number of countries, none of them seriously challenged the primary position on the left of the traditional pro-Soviet Communist party.

Soviet-Cuban concord was strengthened by the disappearance of Ernesto "Che" Guevara from Cuba. On 2 October 1965 Havana announced that the Argentine-born leader had been dropped from the leading elements of the Cuban United Socialist Revolutionary Party, which the following day was renamed the Cuban Communist Party. Castro then read a letter from Guevara which the premier said had been given him on 1 April. In it Guevara announced that he was giving up all of his party and government posts, as well as his Cuban citizenship. He went on to say that "... other nations require my services and I must leave you ....I will take the spirit you inculcated into new fields of battle... in the fight against imperialism.... I free Cuba of all responsibilities [for my actions]...."[25]

While there has been endless speculation about what may have occurred between the old comrades-in-arms, it is probable that Castro was relieved to see Guevara depart. The fact was that "Che" was temperamentally unable to accept the kinds of constraints that Moscow sought to impose on Havana. He was the ultimate romantic for whom revolution was a kind of mystical touchstone. Moreover, he was perhaps

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even more scornful than Castro himself of the little gray men who headed Latin American Communist parties. Equally important, if Guevara proved successful in igniting a revolution in a country not covered by the Moscow-Havana accord, Castro could blandly deny that the effort was a Cuban undertaking as such while in secret warmly applauding Guevara's achievement. In fact success would serve to nullify the agreement.

During the summer of 1965 the Soviets pressed Latin American Communist parties to form extensive united fronts with all elements in opposition to imperialism. In addition the Kremlin expressed the view that Castro's success in Cuba had derived more from his having obtained broad popular support than from the guerrilla tactics which he had employed.[26]

While Havana refrained from responding publicly to this reinterpretation of the Cuban Revolution and Fidel's role in it, the analysis must have rankled. During the fall of 1965 a long simmering dispute between the Communist Party of Venezuela (PCV) and elements of the National Liberation Front (FLN), an organization dedicated to the use of insurgency, boiled over, the PCV opting for a broad united front, the FLN for military operations against the government.[27]

The increasingly shrill war of words between Moscow and Peking also seems to have emboldened Castro to review the 1964 agreement. For their part, the Chinese had little to lose in urging Latin American Communists to adopt a general policy of guerrilla warfare. Moreover, such advice was consistent with Mao's doctrine and experience. The Soviets, on the other hand, were a global power with aspirations to establish diplomatic and commercial ties throughout the continent. It is understandable that Moscow would adopt a more prudent policy than that of Peking.

The Chinese also began to lash out at Castro as a "revisionist," threatening his image as the revolutionary *par excellence*. That too must have nettled him and contributed

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to his response.

In all events Castro's adherence to the 1964 agreement ended abruptly at the Tricontinental Conference which was held in Havana in January 1966. Originally named the Afro-Asian Peoples Solidarity Committee by the Soviets who created it, Tricontinental was hijacked by Castro to the discomfort of Moscow which had intended that it be convened in Cairo. Since the Cubans were given *carte blanche* to determine what Latin American delegates to invite, Castro saw to it that the majority consisted of people who were engaged in active insurrection or who disagreed with the prevailing soft-line policies of traditional Communist parties in their respective countries. By inviting delegates who were hostile to orthodox Communist parties in such countries as Argentina, Uruguay and Chile, Castro in effect abrogated the 1964 agreement. The resulting conference documents called for the revolutionary forces represented in the conference to provide material aid including weapons and ammunition to permit the people fighting for their liberation to succeed.[28]

It was a startling show of independence by Castro who had obviously come to regret his earlier acquiescence in what can only be termed Soviet caution. In a matter of a moment, so to speak, he had recaptured the high ground, giving the lie to Chinese charges against him, reinforcing revolutionary elements throughout the area, and incidentally tweaking the nose of his Soviet patron.

On 14 March in a radio broadcast from Havana Castro attacked Venezuela's "rightist" Communist party, describing its members as "revolutionaries who don't fight." The denunciation coincided with the publication of Kegis Debray's "Revolution in the Revolution?" in the inaugural issue of *Cuadernos de la Casa de las Americas*, a Cuban journal devoted to political analysis. The Debray article attributed the failure of the revolution in Venezuela and elsewhere to its dependence on urban-based Communist parties for political direction and material support. Instead, the young French

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writer argued, the political and military commands had to be concentrated in the guerrilla movement, a mobile fighting force. In addition, Debray revealed that "Che" Guevara was engaged in insurrectional work and would reappear as head of a guerrilla movement.[29] Not only was Castro redefining his position but he was seeking to buttress it on sound doctrinal grounds.

For their part, the Soviet remained silent. If Moscow attempted to exert new pressures on Cuba, they did not work. Moreover, the Kremlin was plainly reluctant to force the issue to a point where a public debate might ensue.

Accordingly, Castro felt free to go all out in his support of Latin American liberation movements. Beginning in 1967 the Cubans greatly expanded their facilities for training foreign guerrillas. Alias documentation was used to facilitate clandestine travel to and from Cuba. Trainees were given pseudonyms to cloak their identity. Moreover, they frequently travelled from Mexico City via Vienna and Prague to Havana which indicates that the Soviets and their loyal Czech allies were willing to play a part in the process.[30] There were two obvious reasons for the employment of covert methods. The first was to withhold from Latin American governments the names of participants ana their *modus operandi*. The second was to provide the Cubans with plausible deniability. While Castro was obviously proud of his role as Godfather of the guerrillas, he saw some risk in flouting it to the world at large since he could not be absolutely sure that the Soviets would come to his aid if he pushed Washington too far.

The death of Guevara in Bolivia on 8 October, which was the result of information on his whereabouts, provided to the army by peasants who were supposed to flock to his banner, was a severe blow to Havana's indiscriminate aid to revolutionary movements.[31] Guerrillas in Bolivia and elsewhere proved unable to attract popular support and were outmanned by counterinsurgency forces. Castro apparently began to have second thoughts about Debray's theory of guerrilla foci.

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Moreover, the reversion of the Cuban economy to a traditional pattern which was to involve a drive for a ten million ton sugar harvest between 1970 and 1972 absorbed considerable energy and attention. Moreover in Chile, which had been a focal target, Salvador Allende won an electoral victory which served to soften Cuban hostility to the employment of a political strategy by revolutionaries. Finally Chile, together with Argentina and Peru, reestablished diplomatic and commercial relations with Cuba, effectively ending the Organization of American States' sanctions which had been in place since the early 1960s. While the Cuban media continued to attack right-wing regimes, Havana was careful to avoid criticism of orthodox Communist parties. Nor did Castro take any new initiatives to aid Latin American insurgents until the late 1970s.

At much the same time Moscow's attitude regarding support for national liberation in Latin America as well as elsewhere was undergoing change in favor of a more active policy. This was in part because the Soviets saw the U.S. as hopelessly mired in Vietnam while domestic protest grew apace and in part because Moscow saw itself in strategic equivalence with the U.S.[32] In the early 1970s the Kremlin could look at the world with a new sense of optimism. This led to such formulations as the Brezhnev Doctrine which characterized the Eastern European Socialist Bloc countries as being under the protection of the U.S.S.R. and having only limited sovereignty. Prior to his April 1972 meeting with Leonid Brezhnev, Secretary of State Henry Kissinger found unacceptable the proposition that Moscow had the right to support liberation movements all over the world while insisting on the Brezhnev Doctrine inside the Soviet Bloc.[33] Yet in subsequent negotiations the Soviets gave little ground save for agreeing with the necessity for restraint and renouncing any claim for special privileges in any part of the world.[34]

In late 1978, after an hiatus of nearly a decade, Havana made a decision to support national liberation once again, having come to view the revolutionaries in Nicaragua as

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being engaged in a serious effort to overthrow the repressive Somoza regime. Initially Castro persuaded disparate elements to act in concert. In addition he provided training and materiel for FSLN insurgents.[35] His renewed efforts in Latin America were no doubt stimulated by the unwillingness of the U.S. Congress to respond to the deepening Cuban involvement in Angola, as well as by the general reluctance of the American public in the wake of Vietnam to support vigorous anti-Communist measures abroad.

Cuba's support of the Sandinistas not only did not provoke dissent in Moscow but resulted over time in large scale Soviet military and economic commitments to the FSLN. For one thing, one of the three factions comprising the front was an element of the Communist Party of Nicaragua which looked to Moscow for guidance. For another, the name of General Augusto Sandino was synonymous with the Soviet view of patriotism and national independence in Nicaragua. In fact the Comintern at its Sixth Congress in 1928 had passed a resolution extending fraternal greetings to Sandino who was then waging war against Anastasio Somoza, the elder, and by extension U.S. imperialism.[36]

The Cuban role in resupplying the Sandinistas during their extended civil war against the U.S.-backed Contras is well known and is consistent with Castro's principle of aiding socialist governments to damp down counter-revolution. It turned out to be a low risk effort since almost from the moment of their conception the Contras were the subject of bitter debate in the U.S. Congress and lacked popular support in the U.S. and abroad.

Emboldened by the prospect for success in Nicaragua, Havana did not hesitate to come to the aid of the Jose Marti National Liberation Front (FMLN) in El Salvador. The Cuban decision ruffled no feathers in Moscow. In fact the Communist Party of El Salvador, which like that of Nicaragua, had a long association with the Comintern and the Soviets, helped to organize the FMLN and was a major constituent of it. Moreover, the political situation in El Salvador in the late 1970s was similar to that of Nicaragua.

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Ruled by a government which saw to the interests of a tiny oligarchy at the expense of the population at large, El Salvador offered the guerrillas ideal objective conditions for revolution. Also, like Nicaragua under the Somozas, El Salvador lacked external sympathy and support. Aid to the FMLN by Havana was a low risk venture, and an even lower one from Moscow's vantage, finally, Moscow apparently had no intention of opening diplomatic relations with San Salvador which might otherwise have been an inhibiting factor.[37]

The guerrillas have now waged war in El Salvador for a decade with no end in sight, although the government under pressure from Washington has undergone substantial reform. Both the Sandinistas and Cubans have provided vital material support to the FMLN, much of it originating in the Soviet Bloc.[38] Contrary to Cuban disinformation which depicts the FMLN as relying on weapons and ammunition captured from the army, continuing infusions of materiel from abroad are needed. Congressional critics of military support to the Salvadoran army by successive U.S. administrations concede in the face of intelligence information that external shipments have taken place, but argue that the cumulative effect is negligible. In fact no one except the suppliers and the recipients can be sure of the volume. Given the nature of the terrain in Central America and the fact that El Salvador shares the Gulf of Fonseca with Nicaragua, it is virtually impossible to monitor the flow of arms, let alone to interdict it.

Gorbachev can disclaim support to national liberation movements in Central America with assurance that his word will be accepted at face value in some quarters. In fact the Soviets are probably not resupplying the FMLN in a direct way. But such an assertion by the Soviet leader would be legalistic as well as casuistic. Cuba and Nicaragua are awash in arms originating in the Soviet Bloc.

Recent indications suggest that guerrillas in Guatemala and Honduras intend to step up their efforts to topple the governments of those countries. Costa Rica has grown visibly

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anxious and the unstable political situation in Panama can only work to the advantage of the extremists in that country.

As Gorbachev pursues his various objectives of reducing the crushing burden of Soviet arms; extending commercial relations with the U.S,; and realizing the benefits of American science and technology, he must be made to understand that the U.S.S.R. can no longer support national liberation with impunity. As far as his Latin American clients are concerned, the Soviet leader may even prove willing to apply pressure which may inhibit Castro. Despite the Cuban leader's recent expressions of disdain for *perestroika* and his affirmation that Cuba will go-it-alone if necessary, it appears that at some point he would have to respond to the threat of reduced subsidies, a consideration which may have crossed Gorbachev's mind if only for purely economic reasons. Since there is almost no squeeze left in the Cuban economy, the suggestion of a little racheting might have a salubrious effect.

Given Castro's sense of priorities, however, it may be that Havana will not seriously contemplate ending its involvement until after he has departed from the scene. Nevertheless, even if he insists on Cuba's continuing support of Central American insurgents, the absence of the U.S.S.R. from the equation would make the problem more manageable.

As for the Sandinistas who are indebted to the FMLN for help extended during the 1970s, Ortega is even more susceptible to pressure than Castro because, unlike the Cubans, the Sandinistas are not without significant internal opposition.

In the longer run Washington will no doubt decide to discuss this and related issues directly with Havana and Managua. In the foreseeable future, however, it is more reasonable to try to contain the problem at its ultimate source, especially since Moscow has demonstrated a strong incentive to negotiate a broad range of issues which have made U.S.-Soviet relations consistently contentious and occasionally explosive.

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Footnotes

1. *New York Times*, 5 April 1989, pp. 1 and 8.
2. *ibid*, p.8.
3. As an example, see Arkady N. Shevchenko, *Breaking with Moscow*, Alfred Knopf, New York, 1985, p. 272. The former Undersecretary General of the United Nations who defected to the U.S. quotes Vasily V. Kuznetzov, a high ranking Ministry of Foreign Affairs official, as saying in 1976 that the idea of promoting a large scale intervention of Cuban troops in Angola was Castro's which the Soviets approved as the result of their growing military power.
4. The turnout of voters in successive elections despite guerrilla threats and actions against them is strong evidence that the population as a whole is opposed to the FMLN.
5. Karl Marx, "The First International and After," *Political Writings*, Volume III, 1864-1883, Vantage Books, New York, 1974, p. 196.
6. *The Short Philosophical Dictionary*, Edited by M. Rozenthal and P. Yudin, Moscow, 1954.
7. See *Imperialism, the Highest Stage of Capitalism*, International Publishers, New York, 1985.
8. *Fundamentals of Marxism-Leninism Manual*, second revised edition, Foreign Languages Publishing House (FLPH), Moscow, 1963, pp. 664-666.
9. Alvin Z. Rubenstein, *Moscow's Third World Strategy*, Princeton University Press, 1988, p.79.
10. Lenin and Stalin, *1917 Selected Writings and Speeches*, Moscow, FLPH, 1938, pp. 664-667.
11. Joseph Stalin, *Works*, Moscow, FLPH, 1953, Volume IV, pp. 174-176.
12. Victor Alba, *Historia del Comunismo in America Latina*, Ediciones Occidentales, Mexico City, 1954, pp. 35-37.
13. Robert J. Alexander, *Communism in Latin America*, Rutgers University Press, 1957, pp. 36-44.
14. Debriefings by the author of various CIA officials who had served as FBI special agents in Latin America during the war. Information collected by the FBI was turned over to the CIA after its organization in 1949.
15. See J. M. Mackintosh, *Strategy and Tactics of Soviet Foreign Policy*, Oxford University Press, London, 1963, p. 21.
16. Alexander, *ibid*, pp. 361-362.
17. International Press Correspondence, Moscow, for 13 November 1922.
18. See Hugh Thomas, *The Cuban Revolution*, Harper and Row, New York, 1977, p. 56. According to Carlos Rafael Rodriguez, A Communist leader who became a close ally of Castro's during the campaign in the Sierra Madre, the Communist party knew nothing of Castro's plan to attack the Moncada Barracks.
19. Thomas, *ibid*, pp. 259-260. The Communist party as such did not join Castro's 26th of July Movement until the fall of 1958, a few months before victory in January 1959.
20. Fidel Castro, *El Partido Marxista-Leninista*, La Kosa Blindada, Buenos Aires, 1965, p. 318. Excerpts from the Second Declaration of Havana.
21. *New York Times*, 27 March 1962, pp. 1 and 17. Although Escalante was singled out, the attack was also aimed at a number of other old Communists who were also purged.
22. *New York Times*, 16 April 1962, p. 8. 23, See D. Bruce Jackson, *Castro, The Kremlin, and Communism in Latin America*, Johns Hopkins University, Baltimore, 1969,

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pp. 28-31 for an account of the Havana Conference of Latin American parties in 1964.

24. Jackson, *ibid*, pp. 32-33.

25. *New York Times*, 5 October 1965, pp. 1 and 5.

26. See the August 1965 issue of the *World Marxist Review*.

27. Jackson, *ibid*, pp. 40-59. This represents a detailed analysis of the conflict within the Venezuela left and Castro's role in supporting the insurgents.

28. For the text of the "General Declaration" see the *Council of the Organization of American States*, Report, Washington, 1966, Volume II, p. 157.

29. This was the first mention outside of Cuba of the work of the young French Marxist who had been studying insurrection in Cuba and elsewhere in Latin America.

30. See Thomas, *ibid*, p. 705, Also, Rubenstein, *ibid*, pp. 178-179.

31. *New York Times*, 16 March 1967, pp, 1 and 20.

32. Henry Kissinger, *White House Years*, Little Brown and Company, Boston, 1979, pp. 197-198.

33. Kissinger, *ibid*, p. 1136.

34. Kissinger, *ibid*, pp. 1150-1151. The Nixon administration's preoccupation with the need to extricate the U.S. from Vietnam dominated Kissinger's meetings and the summit which followed, thereby apparently precluding a serious discussion of Soviet support for national liberation elsewhere.

35. See William M. LeoGrande, "Cuba," in *Communism in Central America and the Caribbean*, Edited by Robert Wesson, Hoover Institution Press, Stanford University, pp. 41-42. The author, a critic of U.S. policy in Central America, admits that Cuba began to provide material support to guerrillas in Nicaragua, El Salvador and Guatemala in the 1978-1979 period, Also, Wayne S. Smith, a frequent apologist for Castro, admitted in 1985 that Castro had given some degree of support to the FMLN. See his "U.S.-Cuban Relations," in *Cuba, Twenty Five Years of Revolution, 1959-1984*, edited by Sandor Halebsky and John M. Kirk, Praeger, New York, 1985, p. 349. See "The Challenge of Democracy in Central America," published jointly by the Departments of State and Defense, June 1986, pp. 47-56. Also, William M. LeoGrande, "Cuba,..." (rest as originally done).

36. Alexander, *ibid*, p. 378.

37. Traditionally the Soviet mission in Mexico City dealt with Central American countries as well as with their oppositionists. Since the opening of an embassy in San Jose, Costa Rica in 1970, however, functionaries assigned there have dealt extensively with matters concerning El Salvador and Honduras.

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THE CATHOLIC BISHOPS' POLICY ON STRATEGIC DEFENSE: A CASE OF MORAL DISARMAMENT

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I

On June 25, 1988, the United States Catholic Bishops approved a policy statement on nuclear strategy entitled, "Building Peace: A Pastoral Reflection on the Response to "The Challenge of Peace."[1] Along with several other religious denominations, the American Catholic Church continues to participate as an active political player on war-peace issues. Its pastoral letter on nuclear war was the most detailed analysis and received the most notoriety among the denominational policy statements. The most recent Catholic document was designed to evaluate progress toward disarmament as well as to establish the proper moral approach to the Strategic Defense Initiative. Though many predicted that the bishops would repudiate nuclear deterrence completely, the political climate created by the INF Treaty and *glasnost* appeared to arrest temporarily the embrace of unilateral disarmament. In their initial 1983 report, the bishops advocated a "strictly conditional defense of deterrence." Deterrence was deemed to be unacceptable as a long-term solution to the threat of nuclear war but was condoned if vigorous steps were adopted toward progressive disarmament and/or the development of a viable world government. While some general criteria were provided as a basis to judge evolving strategic policies, no specific morally acceptable rate for dismantling deterrence was announced. However, the bishops' pastoral letter habitual reliance upon such rhetoric can dilute its impact, the bishops reaffirmed the fragility of peace in 1988, stating:

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> "we write this report to remain faithful to our commitment of 1983 and because of the continuing urgency of the situation posed by nuclear weapons."[2]

In an era when many Catholic "faith commitments" are abandoned or opened for critical re-examination, the 1983 pastoral letter has attained for some a revered, almost koranic status.

The bishops' recent report neglected to respond to the numerous scholarly critiques of the original pastoral letter. A celebrational aura was assumed which proclaimed the extraordinary public response to the letter coupled with the great moral concern and consensus displayed by the bishops themselves. The document declared, "'The Challenge of Peace' has strengthened our church, enriched its life and engaged many of our people."[3] The pastoral letter had inspired an "unprecedented process" of preaching, education and social action. Countless Catholics participated in conferences and workshops. Others were less rhapsodic about its pedagogical potential. In 1983, Michael Novak warned that the Left would utilize the pastoral letter for a "propaganda blitz."[4] James Dougherty echoed this concern, stating, "it is probable, however, that in the long run, the pacifists, who have had the momentum in recent years, will dominate the instructional process."[5]

Matthew Murphy's study, *Betraying the Bishops*, documented how the pastoral letter's full message was being subverted pervasively into a plea for outright pacifism.[6] In some dioceses shepherded by outspoken "peace bishops," the workshops on the pastoral letter utilized it as springboard to a far more radical political agenda. For example, Seattle Archbishop Raymond Hunthausen's diocesan curriculum workbook distinguished "non-violence as a tactic" from "non-violence as a condition of Christian life." He contended, "I believe the Just War Theory is a good example of our failure to maintain a constant commitment to building the Kingdom."[7] Only unilateral nuclear disarmament would meet the moral requirements of being a practicing Christian. Later

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entries in the workbook embraced revolutionary wars against "violent institutions" in an apparent attempt to reconcile Hunthausen's Gandhian "pacifism" with fidelity to the Sandinistas. The pastoral letter stated explicitly that it must be taught "in its entirety, including its complexity...as a guide and framework."[8] It warned that those who applied the document to concrete policy issues "must indicate what the legitimate policy options may be."[9] Every diocese was urged "to implement balanced and objective educational programs to help people at all age levels understand better the issues of war and peace."[10] Evidence mounted that, on both the local and national level, many Church officials violated these guidelines.

Inspiring militant political action supplanted nurturing sober reflection upon a highly complex issue. Despite the fact that Cardinal O'Connor wrote the "foreword" to Murphy's book, which detailed such abuses, the bishops' report announced that "much has been done to integrate fully the church's teaching in our educational efforts."[11] Cardinal O'Connor was a sitting member of the Ad Hoc Committee on the Moral Evaluation of Deterrence which drafted the document. Though not acknowledging that any abuses had transpired, the 1988 report did reiterate that the pastoral letter be taught in its totality. Nonetheless, the new report was not content with mere strategic analysis. It sought to radiate an evangelical fervor which would achieve "a conversion of the heart."[12] An antagonism emerged between providing a balanced, credible account of complex nuclear strategic questions and mobilizing the masses for peace through a ringing call to political action.

II

The bishops reminded their audience that they were teachers and not technicians. Their focus centered upon the moral evaluation of strategic policy. They admitted to a "special awareness of spiritual-religious realities" which could guide the country to act in a morally acceptable manner. It

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remained ambiguous as to whether this awareness was prophetic or simply knowledge rooted in traditional Church doctrine. Confessing to a lack of technical expertise betrayed the bishops' dependence upon the United States Catholic Conference's professional staff for its policy prescriptions. Dinesh D'Souza's study suggested that collectively the bishops would flunk an elemental competency test on strategic doctrine.[13] Both the original pastoral letter and the recent update couldn't resist their "last temptation" to venture forth into the prudential policy realm. They maintained that their moral conclusions about social policy were contingent inevitably upon empirical data. Erecting a clear wall of separation between various levels of teaching authority became a near futile exercise.

The report held that SDI proponents struggled to capture the moral high ground by promoting the program's benign, humanitarian motives. The bishops responded that the morality of the SDI program couldn't be secured by purity of motive but the examination of means and consequences. This stance appeared to invert the prohibitions against "consequentialism" voiced in the pastoral letter. The intention to employ nuclear weapons to retaliate against an enemy strike was found to be immoral. Instead, America's deterrence policy should rest tacitly upon a bluff. One could still deter an enemy by simply possessing such weapons. The enemy would never know with certainty that these weapons would be fired. But if immoral means can never be employed for moral ends, wouldn't lying and deceit brand this "existential deterrence" policy as immoral? Would an enemy be credibly deterred if your troops are not trained for a nuclear contingency, when no strategy for the use of nuclear weapons in a protracted conflict exists, and you have declared that nuclear retaliation is itself immoral? However, SDI advocates would probably not object to a thorough analysis of the consequences of various strategic options — including strategic defense.

The bishops maneuvered themselves into a peculiar dilemma: 1) they insisted that they weren't strategic experts,

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and 2) in order to evaluate SDI morally, expert opinion was incumbent. What experts did the report cite? The drafting committee did interview some Administration officials. It did employ Paul Nitze as a "canonical reference" for establishing the criteria for SDI deployment. Not everyone, even within the Reagan Administration, would champion Nitze's groundrules – particularly the requirement for mutual cooperation with the Soviet Union on developing strategic defenses. General James Abrahamson, head of the Defense Department's Strategic Defense Initiative Organization, wrote a letter to Cardinal Joseph Bernadin, head of the drafting committee, which complained that no technical or first-hand policy information was sought from his organization. Abrahamson's staff was arguably the most intimately involved and knowledgeable group for the entire program.[14] Bernadin replied with a sharply-toned letter which was distributed to all of the bishops. It stated that the Ad Hoc Committee had spent "most of one day" being briefed by Reagan Administration officials. If the issue of nuclear war incarnates the world historical magnitude which the bishops have ascribed to it (and it does), why would "most of one day" suffice for obtaining pro-SDI input? The bishops selected their own preferred "A" team of experts for the report which included the American Physical Society, the Aspen Institute Strategy Group, and the Stanford Center for International Security and Arms Control.

By openly emphasizing that the SDI controversy was tortuously complex and technical, the bishops may indeed have inhibited the average reader from investigating further into this arcane world. They concluded that more doubters existed in the scientific community than advocates.[15] Both the number and the quality of these scientific appraisals cautioned against "precipitous" movement toward SDI.[16] The report then noted that its purpose was not to count or weigh positions but simply to illustrate the nature of the SDI debate. If this had been the bishops' actual intention, they could have: 1) simply published a well-reasoned article pro and con on the issue, 2) listed a balanced and extensive

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bibliography. Unfortunately, the bishops appeared to appeal to a visceral fear of the unknown. They admitted curiously that the old deterrence policy had succeeded in preventing a nuclear holocaust for over forty years. Finally, the report made reference to the Bernadin-O'Connor proviso that "a program which fails to attract a clear consensus on technological-strategic grounds should not be allowed to command resources at a time when other human needs go unfulfilled."[17] The existence of controversy, in itself, would therefore suffice to kill the SDI program in the cradle.

III

The bishops' report conceded that SDI appeared to be compatible with the moral principles of Catholic just war theory. Theoretically, strategic defense would enable the nation to protect its civilian population, escaping the immorality of a deterrence policy grounded upon nuclear retaliation, a mutual suicide pact. SDI would defuse the nuclear hair-trigger by directing research toward non-nuclear defensive systems, not massive offensive weapons. Furthermore, strategic defense could be implemented without a prior radical transformation of international relations. It wouldn't require that distrust and hostility evaporate between the United States and Soviet Union leading to a mutual disarmament similar to relations between the United States and Canada. Nor would SDI necessitate the abolition of state sovereignty through a new world order. The bishops insisted that failure to "move forward" on arms control would impede progress in other areas of U.S.-Soviet relations. This analysis inverted the historical experience of the 1970's. The SALT I Treaty did not appear to induce Soviet foreign policy restraint. The report repudiated any diplomatic linkage with Soviet behavior in Afghanistan, for example, and arms control. The United States should not raise these issues in the hopes that magnanimous treaties on the strategic level will nurture Soviet amity which would blossom sometime in the future. More faith was placed in the Soviet Union than

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in a technological solution to the nuclear dilemma. The preferred approach would capitalize upon this supreme moment of crisis to midwife a cathartic moral transformation of mankind.

IV

Strategic defense has been promoted as both an instrument to strengthen deterrence and as a means ultimately to transcend mutual assured destruction by protecting the population. The bishops argued that the risks of SDI far outweighed its hypothetical benefits. First, it would create an obstacle to progress on arms control by eroding the framework for negotiations.[18] It poisons arms negotiations presumptively because the Soviets say they fear and dislike SDI — or at least an American SDI program. Second, it would stimulate a new surge of offensive competition by the effort to counteract defensive systems. While strategic defense could stimulate new offensive weapons, it might also lead to deep reductions in current offensive arsenals and strengthen deterrence. A negotiated build-down in offensive systems could arguably ensue, particularly if such weapons appear to be increasingly obsolete. Those revolted by the horror of a prospective nuclear war ought to empathize with the logical option of promoting defensive systems. Third, the bishops contended that the transition period of deploying SDI would undermine seriously crisis stability and move both parties toward a pre-emptive strategy. If one agrees that the Soviet Union possesses a first-strike strategy, its calculations would be complicated enormously by the deployment of even a limited defensive system. This would serve to fortify the policy of deterrence, not simply stabilize a balance of terror. Such common responses to the bishops' contentions were not cited in the report. The readers were afforded a tenuous foundation for examining the actual technical debate.[19]

The fourth criticism of SDI alleged that it must not absorb a "morally disproportionate percentage of the federal budget."[20] The report attempted to discredit the research

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program by indicating that, during the last three years, budgetary allocations for SDI increased 41%, 97%, and 16% respectively.[21] The spending on this "radical" program had tripled since its inception. What the bishops didn't reveal was the percentage of the federal budget this eight billion dollars total thus far allocated for SDI signified. They didn't mention that first phase deployment, if it runs up to $15 billion annually, would constitute a little over one percent of the federal budget. Recent cost estimates for first phase deployment have been reduced from $115 billion to $69 billion. The bishops emphasized the economic argument as being laden with particular "moral relevance." They noted the cruel paradox of an escalating SDI program at a time of "deep cuts" in the social programs for the poor at home and abroad. No evidence was provided to demonstrate that such draconian measures were taken in the United States.

A zero sum game was postulated between defense and social spending. Premising military expenditures upon the moral requirement to preserve peace and freedom as human needs is a missing variable in this type of analysis. What is "morally disproportionate" military spending bears no operative relationship to Soviet military spending, threats to America's vital interests, or even a hypothetical target figure of the Gross National Product. Arms competition was portrayed as a "structure of sin."[22] Many economists would describe as somewhat oversimplified the intrinsic regressiveness of the military budget. Social welfare appropriations in the United States overwhelmingly exceed the amount spent on defense, not to mention strategic programs. A version of Lenin's dependency theory was adopted whereby rich capitalist nations were indicted directly for the poverty in underdeveloped areas. The bishops identified a mandate, emanating from the pastoral letters on peace and the economy, to reduce defense spending. Their agenda was clouded by the fact that conventional forces cost more than a nuclear defense. The report reaffirmed the "no first use" prohibition which the French Catholic bishops contended would undermine severely NATO's capability to deter a

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Soviet attack.[23] The American bishops hedged on this issue, at least to the extent that they conceded that it "demands further moral examination." The report did not propose any new conventional arms program but indicated a willingness to "consider" such programs if they actually reduced the danger of nuclear war. However, the bishops' bottomline argument against SDI charged that even if it would work, it would be too expensive when other social needs were neglected.[24]

V

The document's final policy recommendations epitomized some of the equivocations that may have resulted from the internal politics within the bishops' drafting committee. It reflected a meeting of many minds that didn't quite meet.[25] The report concluded that SDI be maintained as a research program but not pressed to deployment. The research and development must be conducted within the strict restraints of the ABM Treaty. According to Frank Gaffney of the Center for Security Policy, this stipulation would deliver a deathblow to SDI because the ABM Treaty was designed to guarantee mutual assured destruction by banning defensive systems. The bishops held that each new step in the SDI program must be tested for its effects upon the offensive-defensive interaction of the arms competition. This stricture could inhibit long-range planning and subject SDI to continual attacks by budgetary-strategic critics. Lastly, "clear criteria" must be established to assess spending for SDI in relationship to legitimate conventional defense expenditures and most notably the basic "human needs" of the poor worldwide.[26] These reservations, coupled with the moral admonition not to deploy SDI, would not generate much public enthusiasm for even an attenuated research program.

The bishops concluded that, "it is our prudential judgment that proposals to press deployment of SDI do not measure up to the moral criteria outlined in this report."[27] The more compelling moral case rested with those who

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deplored the likely risks of an "aggressive" SDI program. The perils attendant to only the Soviet Union developing a strategic defense were not calculated. This would appear currently to be a more probable scenario. The report's original draft held that SDI was "morally deficient," leaving the implication that it was a "sin." After Cardinal O'Connor objected to this confusion, Cardinal Bernadin diluted the rhetoric to not measuring up to "moral criteria."[28] This minor concession seemed to emerge more from embarrassment about the reliance on "sin" as a moral category than an indication that the political balance of power had shifted amongst the bishops.[29]

The report did strive to appear as a plausible compromise by juxtaposing radically disconsonant positions. While not appearing in the actual text, the version published in *Origins* indicated that Pax Christi U.S.A., a pacifist group which includes over sixty bishops, criticized the document for failing to condemn nuclear deterrence outright and demanded an immediate national policy change. Possessing nuclear weapons was the modern moral equivalent to worshipping satanic idols. Pax Christi also repudiated any funding of strategic defense.[30] Among the "small number" of objections to the report, the bishops mentioned the intervention of Archbishop Joseph T. Ryan of the Archdiocese for the Military Services U.S.A. Archbishop Ryan's full statement constituted a frontal assault on the basic premises of the entire report.

Archbishop Ryan declared that if the advice of the 1983 pastoral letter in support of a nuclear freeze had been adopted, no INF Treaty would have been signed. In lieu of this previous misadventure, Archbishop Ryan proposed that the whole section on strategic defense be rewritten. He contended that this section of the report "rests upon factual data that is highly controverted, supported by an obviously politicized scientific report, and blatantly designed to undermine the declared intention of the government to move beyond the philosophy of MAD...None of the arguments

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presented in the Report against SDI outweigh the obvious argument favoring it, namely, the vehement and implacable opposition to it by the Soviets. The obvious question seems to be, if SDI is so unworkable and impractical, why are the Soviets so anxious to derail it?"[31] The existence of a Soviet strategic defense program surfaced only elliptically in the report through a single footnote.[32] Archbishop Ryan described as "simplistic" the automatic presumption that every expenditure on national defense was at the expense of social programs. His remarks were ruled to be out of order and none of his criticisms were entertained in the final report.

A second example of contrasting alternatives as a vehicle for consensus involved briefly mentioning proponents of unconditional nuclear pacifism and advocates of limited war. In a recent book, *Nuclear Deterrence, Morality & Realism*, the authors defended the thesis that American policymakers actually plan to obliterate the population of the Soviet Union regardless of their stated intentions to attack only military targets. Confronting the moral dilemma of opposing Soviet power versus threatening to kill the innocent, the book concluded, "Every reasonable person wishes to escape it [the dilemma]. But the only thing one can escape is the guilt. And one can do that only by ceasing to participate in, defend, support, or approve the nuclear deterrent system."[33] A total, immediate unilateral nuclear disarmament by the United States was proposed. Advocates of limited nuclear war contend that the emerging technology has increased the accuracy and miniaturized nuclear weapons. Such technology can create conditions of discrimination and proportionality which would legitimate the use of nuclear weapons within the Catholic just war theory. A credible deterrence would require a war fighting capability and a strategy for protracted conflict. This counterforce doctrine coupled with a strategic defense program is designed to counteract the clear Soviet rejection of mutual assured destruction. The bishops did not cite Joseph Martino's book, *A Fighting Chance*, which is a detailed presentation of this approach that engaged concerns

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raised by the 1983 pastoral letter.[34] The report claimed that variants of these positions were rejected at that time. Of course, their original document did not discuss strategic defense or examine Soviet strategic policy beyond the assumption that it supported mutual assured destruction. The bishops still oppose any strategic modernization program. They maintain a predisposition against second-strike retaliation unless one has "moral certainty" that nuclear weapons can be employed within the parameters of discrimination and proportionality. But without a testing program, how could these conditions be met?[35] A discriminate deterrence strategy is dismissed because it can't "guarantee" that nuclear war is subject to precise rational limits. Protecting the right to life of innocent persons is categorized as "an absolute moral norm." A targeting policy which does not intend to strike civilians and which makes the most honest effort to implement that policy was still inadequate morally because it entails some evil or unacceptable consequences. The bishops left the impression that any loss of civilian lives would suffice to disqualify the policy. No warfare strategy, nuclear or non-nuclear, could satisfy these moral conditions. Technological improvements in command and control systems were dangerous if they "enhance war-fighting capabilities or feed the illusion of surviving an extended nuclear exchange."[36] Without a survivable command and control system, the option for launching a successful first-strike gains credence. The bishops' paradox consisted of repudiating a war-fighting capability which is the essential basis for establishing a credible deterrent. If deterrence fails, a defenseless United States would suffer the worst possible catastrophe with the prohibition on contingency planning. In saying "no" to the very idea of nuclear war, the bishops' statements impact asymmetrically to the grave disadvantage of the West. They proclaimed, "there is a moral imperative to avoid nuclear war or anything which could lead toward or increase the possibility of nuclear conflict."[37] This survivalist mind-set demoralizes the capacity of democratic nations to defend themselves. In the attempt to undermine SDI, the

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bishops reverted to a policy which effected a backhanded embrace of mutual assured destruction.

VI

Several themes resonate throughout the report which would contribute to the moral disarmament of the West. 1) A moral equivalence between the United States and the Soviet Union is advanced with both superpowers being a threat to world peace. 2) Utilizing harsh language regarding the Soviet Union and focusing on its vices undermines the necessary atmosphere for arms control and peace. While chastising the United States for violating the terms of the unratified SALT II. Treaty, the report did not mention any Soviet strategic violations. 3) By inspiring a "peace consciousness," a visceral public predisposition to oppose American involvement in war and expenditures on weapons can be cultivated. Fear of nuclear annihilation can stimulate such emotions to a fever pitch. Rather than striving to limit nuclear war within the parameters of just war theory, all nuclear war was deemed to be "unthinkable." Any use of nuclear weapons would lead inevitably to total escalation. 4) In assuming a prophetic role, the bishops situate their pronouncements in a transcendent realm insulated from public debate. 5) A moral perfectionism is nurtured which advocates rigid criteria which would collapse the prudential option of possible participation in war as a lesser of evils. 6) The arms race is portrayed as an automatism beyond human control. The weapons themselves are evil. 7) The bishops pronouncements disadvantage the West by fomenting intense public pressure for American negotiators to agree to unilateral concessions and erode support for defense programs. Arms control progress is contingent on our negotiators' goodwill and sincerity as peacemakers. The report stated that both superpowers faced "sustained international criticism" for not restraining sufficiently their strategic programs. Even Soviet public opinion was considered to be a moral force on its policymakers. While the

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bishops did recognize that the two political systems differed, they refused to acknowledge that the peace lobby influenced the western democracies disproportionately.

The bishops' pastoral letters lend immediacy to the issue of the proper role of religious organizations, like the National Conference of Catholics Bishops, in the public policymaking domain. Some champion their full commitment to the political arena. Fr. Richard McBrien proclaimed, "the pastoral letter is a model of how religion and politics should and can, intersect and interact in a pluralistic society like the United States of America, without prejudice to the spiritual integrity of religious bodies and religious leaders, on the one hand, or to constitutional principles, on the other."[38] Father Theodore Hesburgh of Notre Dame University called the pastoral letter, "the finest document that the American Catholic hierarchy has ever produced." Many others praised the openness of the drafting process and the sophistication of the final product. In the journal, *This World*, Mark Amstatz described the pastoral letter as "a major landmark in the application of moral analysis to a major public policy issue."[39] Others objected to its specific policies, but endeavored to proselytize the bishops into becoming responsible champions for democratic values.[40] Such quiet diplomacy has not demonstrated much success in weaning the bishops away from a hard leftist political agenda.

Fr. Avery Dulles maintained recently that these bishops' conferences usurp their teaching authority as well as infringing upon the proper political role of the laity within the Church. The bishops should avoid crafting specific stands on political issues even if such policies are formally labeled "prudential."[41] Alexis DeTocqueville remarked that, "...religions should be most careful to confine themselves to their proper sphere, for if they wish to extend their power beyond spiritual matters they run the risk of not being believed at all."[42] He noted that the anti-Catholic sentiment in Europe was fueled by the Church's immersion in politics. Peter Berger stated, "this is the final ecclesial implication of the

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politicization of the Church: wherever a political agenda is seen as constitutive of the Church, all those who dissent from it are excluded from the Church. In that very instant, the Church is no longer Catholic; indeed it ceases to be the Church. "[43] Underlying the power drive for the National Conference of Catholic Bishops for doctrinal authority, some suspect a covert agenda which would anoint these pastoral letters with the mantle of divine revelation. The Conference could speak with the prophetic authority of God and bind the consciences of the Catholic laity. One can imagine the political import of this new weapon for an American liberation theology. Perhaps, this constitutes the ultimate issue in the current battle between Rome and the American bishops.

While the Church can engage properly in elaborating general principles of social teaching, prescribing specific policies beyond its realm of expertise should be discouraged. Even praising the bishops politely for raising important public issues becomes counter-productive if it legitimates what has burgeoned into a new cottage industry. The American Catholic laity ought to protest vigorously the political pretensions of this new national clerocracy.

Footnotes

1. Published subsequently as "Building Peace: A Pastoral Reflection on the Response to 'The Challenge of Peace, " *Origins* (July 21, 1988), pp. 129-148.
2. *Ibid.*, p. 134.
3. *Ibid.*, p. 131.
4. Michael Novak, *Moral Clarity in the Nuclear Age* (New York: Thomas Nelson Publishers, 1983), p. 124.
5. James Dougherty, *The Bishops and Nuclear Weapons* (Boston; Anchor Books, 1984), p. 200.
6. Matthew Murphy, *Betraying the Bishops* (Washington: Ethics & Public Policy Center, 1987), 124 pp.
7. *Dialogue for Peace with Justice*, Justice & Peace Center, Archdiocese of Seattle, 1984, p. 60. For a description of how the peace movement has gravitated from opposition to war to support for wars of national liberation, see Guenther Lewy, *Peace & Revolution* (Grand Rapids: Eerdmans, 1988).
8. The Challenge of Peace (Washington D.C.: U.S. Catholic Conf., 1983), p. 87.
9. *Ibid.*
10. *Ibid.*
11. "Building Peace," p. 132.

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12. *Ibid.*, p. 135.
13. Dinesh D'Souza, "The Bishops as Pawns," *Policy Review* (Fall, 1985): 50-56.
14. "Building Peace," p. 132.
15. *Ibid.*, p. 143.
16. *Ibid.*, p. 144.
17. *Ibid.*
18. *Ibid.*
19. See "Basing Deterrence on Strategic Defense," *Heritage Backgrounder*, no. 621 (December 2, 1987); "The Strategic Defense Initiative: Myth and Reality," *Heritage Backgrounder*, no. 664 (July 26, 1988).
20. "Building Peace," p. 144.
21. *Ibid.*, p. 142.
22. *Ibid.*, p. 146.
23. See James Schall, S.J., ed. with an Introduction, *Winning the Peace* (San Francisco: Ignatius Press, 1984), pp. 101-124.
24. Keith Payne, *Strategic Defense: "Star Wars" in Perspective* (London: Hamilton Press, 1986), pp. 179-88.
25. See Susan Okin, "Taking the Bishops Seriously," *World Politics* (1984): 527-546. The article detected incoherences in the pastoral letter which seemed to be the result of the committee's effort to reconcile incompatible positions. Also, Francis X. Winters, "Bishops and Scholars: The Peace Pastoral Under Siege," *The Review of Politics* (Winter, 1986): 31-59.
26. "Building Peace," pp. 145-46.
27. *Ibid.*, p. 144.
28. Michael Schwartz, "Good News at Collegeville," *Crisis* (Sept., 1988): 14; Thomas Reese, "Bishops Confer at Collegeville," *America* (July 16, 1988): 29.
29. See newspaper accounts, "Bishops Raise Morality Issue on 'Star Wars,'" *The New York Times* (26 June 1988), A18; "Bishops See Moral Flaws In 'Star Wars,'" *The Washington Post* (26 June 1988) A12.
30. "Building Peace," p. 134.
31. Archbishop Joseph T. Ryan, "Intervention on Ad Hoc Committee on Nuclear Deterrence," National Conference of Catholic Bishops meeting (June, 1988), p.2.
32. "Building Peace," p. 148.
33. J. Finnis, J.M. Boyle, Jr., G. Grisez, *Deterrence, Morality & Realism* (Oxford: Clarendon Press, 1987), pp. 160-61.
34. Joseph Martino, *A Fighting Chance* (San Francisco: Ignatius Press, 1988), pp. 283. 35. "Building Peace," p. 137.
36. *Ibid.*, p. 141.
37. *Ibid.*, p. 134.
38. Richard McBrien, *Ceasar's Coin* (New York: MacMillan Co., 1987), p. 196.
39. Mark Amstatz, "The Challenge of Peace: Did the Bishops Help?" *This World* (Spring/Summer, 1985): 29; James Finn, "Pacifism, Just War, and the Bishops' Muddle," *This World* (Winter, 1984) 31.
40. See George Weigel, *Tranquillitas Ordinis* (NY: Oxford University Press, 1987), 489 pp.
41. "Roles of lay, clergy overlap, but shouldn't, meeting told," *The Washington Times* (28 October 1988), F6. See "Bishops' Panel Rejects Vatican Plan to Curb National Conferences," *The Washington Post* (4 November 1988), A3.
42. Alexis DeTocqueville, *Democracy in America* (NY: Doubleday & Co., 1969), p. 445.
43. Peter Berger, "Different Gospels: The Social Sources of Apostasy," *This World* (Spring, 1987): 15.

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THE SOVIET BUDGET DEFICIT: REALITY...OR MYTH?

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It has long been proclaimed by Soviet propaganda that the budget deficit in a "socialist" country, where the state owns the principal means of production and regulates all major economic activities through obligatory central planning, is, at least in peacetime, all but impossible; such a negative economic phenomenon is a destiny of capitalism.[1] Nevertheless, suddenly, at the end of October 1988, Soviet Finance Minister Boris Gostev, as reported by *The Wall Street Journal*, stated that:

> ...for the first time gave details about the annual Soviet budget deficit, which is officially expected to reach 35 billion rubles (about $56 billion at the official exchange rate) next year....[He also admitted] that the Soviet Union had run an annual budget deficit for the past 10 years that reached a "critically large" peak of 37 billion rubles in 1984-85. The current level represents about 4% of Soviet gross national product... [Gumbel, November 2, 1988].[2]

This acknowledgement by the highest Soviet financial official raises the following four questions: 1) How is the Soviet budget determined? 2) What is the meaning of its negative or positive residual? 3) What have been the latter's actual sizes during the last decade? 4) Why did the timing of the Gostev's revelation fall on the end of the year 1988? The paper will attempt to answer these questions.

The Soviet budget and how it is determined

"The role of the budget is (in all countries) to transfer resources, in accordance with government decision, from one part of the national economy to another. The USSR is no

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different in this respect," asserts Nove, a Western specialist on Soviet economy [Nove, 2, 1980, p. 234].

However, one must remember, that many countries of the world are not like the Soviet Union in the sense that, in these countries, state ownership of the means of production is not predominant and central planning does not have its mandatory nature. This implies that in non-Soviet-type societies governments reallocate physical[3] resources and transfer the latter from one owner to another (thus reapportioning real property rights) primarily indirectly, through the usage of money as an active instrument of budgetary policies.

In the "socialist" Soviet Union, the redistribution of the means of production, when it takes place within the state sector of the economy[4], does not involve the reallocation of property rights, but simply reduces the amount of the physical output of the enterprises by moving a portion the means of production to wherever location and for whatever purposes the state desires. The goal is achieved directly, through various plans of supply, production and realization of material goods,[5] with money playing a very passive role in the budgetary process. On the other hand, the reallocation of physical resources in a form of consumer goods entails the relationship between the state as their owner and the Soviet population as their consumer. When, therefore, a change in the proprietor of consumer goods takes place, the state's objective is accomplished more indirectly, with money performing an active function in the budgetary transformation.

The significance of the two factors for the determination of the Soviet budget cannot be overestimated. First, the Soviet budget includes revenues and expenditures not only at the all-union level, but also at the lower levels, down to the smallest localities. The budget of the Soviet Union, in other words, is a unified budget,[6] which reflects "the centralized character of the Soviet economic system" [Hutchings, 1983, p. 29].

It would be natural to expect the lowest economic unit, the enterprise, which is a part of the state as an economic

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organism,[7] to be embodied in the hierarchial structure comprising the Soviet budget. This is not the case, however. Only a portion of the profit of the enterprise is absorbed by the state budget, and the rest is allowed to be retained by the enterprise for its own purposes, which are established by the state economic plan.

Why is this so? Gregory and Stuart explain the fact by stating that enterprises, which operate according to the principle of economic accounting, ought to be regarded as staying outside the state economic structure, hence, operating "independently of the state budget" [Gregory and Stuart, 1986, p. 184].[8] The principle of economic accounting of enterprises is referred to as "profit-and-loss accounting" (Nove, 1980, p. 28), that is, to the fact that enterprises, working according to the principle, must secure planned profits or losses with their own efforts and resources. Of course, not all enterprises are able to function in such a way. For instance, a tank factory "working" for the domestic market cannot have a revenue, because within the country it "sells" its finished product to the government only and not to any other enterprise. The tank enterprise, therefore, depends on the state budget alone.

Second, the dissimilar ways in which the means of production and the articles of consumption are allocated and reallocated and correspondingly different roles played by money in that process result in the existence of two types of money in the Soviet Union. One type of money is used by state enterprises for their interrelations with each other and with the state; the other is employed predominantly by households as consumers. The first kind of money is called bank deposits; the second is called currency.[9]

Third, unlike in the United States, where the largest source of the revenue of the total budget of the federal, state and local governments is taxes on population,[10] the revenue of the unified Soviet budget is derived overwhelmingly from the economy.[11]

Fourth, in the United States budget expenditures are considered to be actual expenditures regardless of whether or

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not the amounts spent leave the domain of the government.[12] In the Soviet Union, as it has been pointed out earlier, consolidated state outlays on the material sector of the state economy are treated as transfer payments;[13] and those on the non-material sector, within[14] and without[15] the state economy, are treated as real expenditures of the state budget.

Based on this understanding of the character of the Soviet budget, let us construct a simple model-diagram to see how the budget "works." As in the case of any model, certain assumptions will be made. These assumptions are as follows:
1) In terms of physical production the national economy is composed of:

a) Two actually productive[16] sectors, one producing final consumer goods (C) and another, final capital goods (K)[17]

b) One potentially productive sector, which is a new construction in process (NC)

c) Two unproductive sectors, one providing social and cultural welfare (SW), and another the general management of all spheres of national life, including the national economy (GM)[18]

d) The unproductive-productive military sector (M), creating finished military goods

2) The national economy comprises a web of physical relations in which:

a) In terms of domestic and foreign users of the national product:

1) Products of the two actually productive sectors are used as follows:

a) Consumer goods are utilized by:

1) The employees of the consumer goods sector itself
2) The employees of the capital goods sector
3) The employees of a new construction in process
4) The recipients of social welfare
5) The employees of the sector of general administration
6) The civilian and military employees of the military sector

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7) Consumers in foreign markets (CFM: consumer goods to foreign markets)

b) Capital goods are employed by:

1) The capital goods sector itself
2) The consumer goods sector
3) The sector of a new construction in process
4) The social welfare sector
5) The general administration sector
6) The military sector
7) Producers in foreign markets (KFM: capital goods to foreign markets)

2) By definition, no final product is produced by the potentially productive new construction sector in process. None, therefore, can be used

3) Military products of the unproductive-productive military sector are used by:

a) The Soviet state for its own needs. The sector is then unproductive, for it does not generate revenue for the state

b) The military in foreign markets (MFM: military goods to foreign markets). The sector is then productive because it brings revenue to the Soviet state

b) In terms of domestic users of foreign products:

1) Consumer goods (CFM: consumer goods from foreign markets) are used by:

a) The employees of the consumer goods sector
b) The employees of the capital goods sector
c) The employees of a new construction in process
d) The recipients of social welfare
e) The employees of the sector of general administration
f) The civilian and military employees of the military sector

2) Capital goods (KFM: capital goods from foreign markets) are exploited by:

a) The capital goods sector
b) The consumer goods sector
c) The sector of a new construction in process
d) The military sector[19]

3) Military goods are used by the military sector for the

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3) Military goods are used by the military sector for the state purposes (MFM: military goods from foreign markets)

3) Although the period of time under consideration involves both production of physical goods and their consequent allocation (reallocation) between various users, only the second stage (allocation or reallocation) will be discussed, since it is during the reapportioning period that the budgetary process takes place

4) The physical product of the sectors of the national economy is divided into the following parts:

a) The physical product of the consumer and capital goods sectors:

1) A non-budgetary part which is left at their disposal and which, as non-wage and wage components of the physical output, must be exchanged between the two sectors and within them for the process of production to continue in the next period[20]

2) A budgetary part which the state withdraws from each of the sectors as the budget revenue

b) The physical product of the military sector consists of a budget-expenditures portion containing non-wage and wage elements

c) New construction in process producing no final physical output is (in the eyes of the state) the budget expenditure comprising non-wage and wage components

d) Social welfare and general management of the national economy creating no physical product of their own are also the budget non-wage and wage outlays

5) In international commercial relations:[21]

a) Sales of a portion of the budgetary revenue product by productive sectors (C, K, and M) to foreign markets (CFM, KFM, and MFM) are the budget revenue

b) Purchases of consumer, capital, and military goods from foreign markets (CFM, KFM, and MFM) for the use of non-productive sectors (M, NC, SW, and GM) are the budget expenditures

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Figure 1
The Soviet Budget in Currency Form

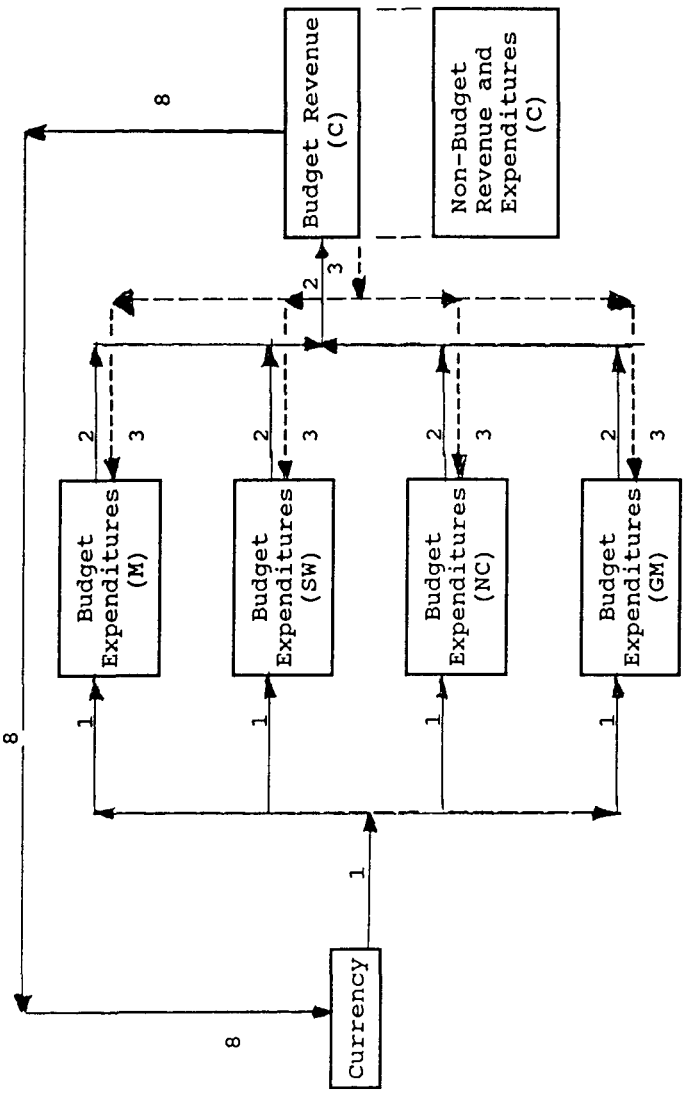

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Figure 2
The Soviet Budget in Bank Deposits Form

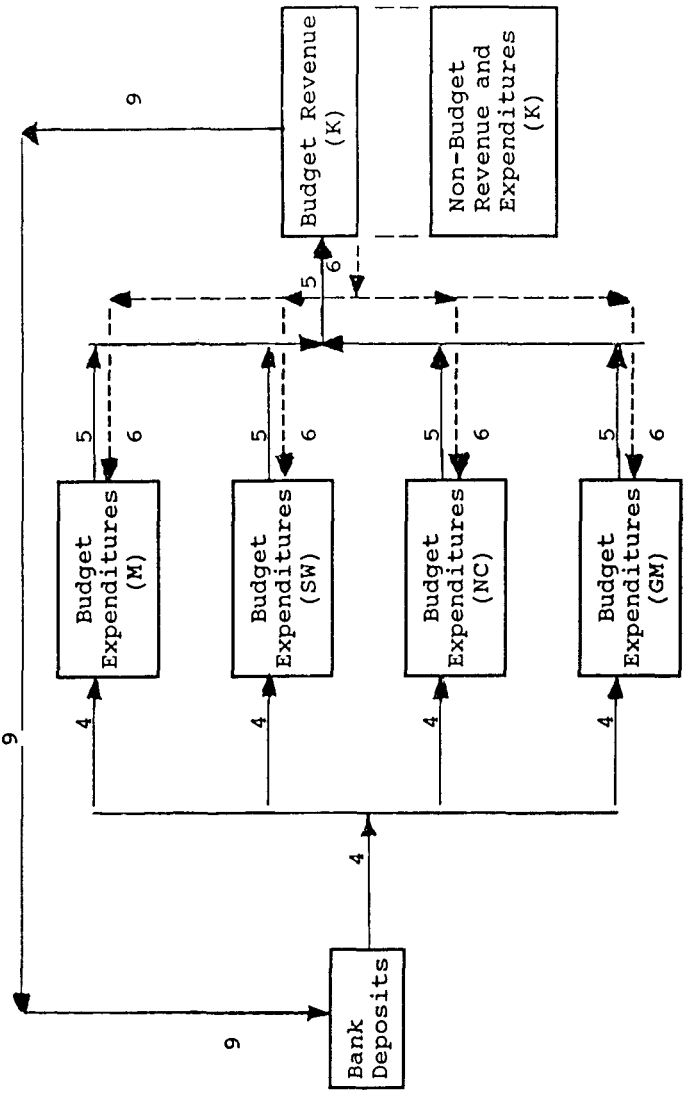

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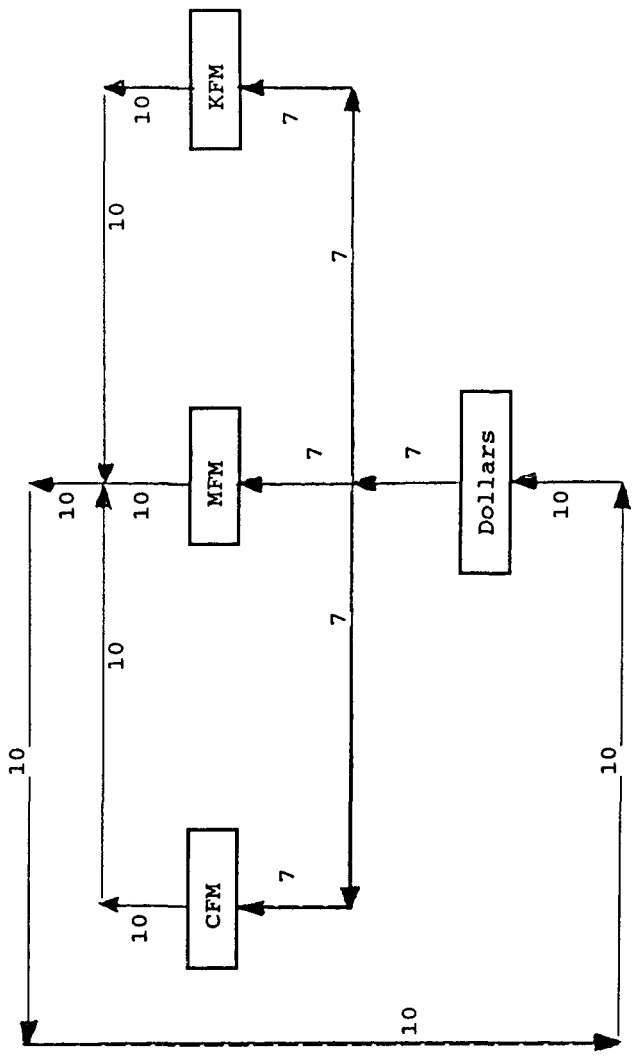
Figure 3
The Soviet Budget in Dollars Form



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6) All physical outputs are measured in money terms
7) The circulation of physical products is served by:
   a) The two previously mentioned types of the domestic money, currency and bank deposits
   b) The foreign currency, say, dollars:[22]
      1) Held by the Soviet state[23] (which are shown as "dollars" in the model below)
      2) Held by foreign markets (CFM, MFM, and KFM)
      Then the Soviet model-diagram will look as follows: (See figures 1, 2, and 3)

The model-diagram presented in Figures 1, 2, and 3, shows the budgetary process as a flow of the physical output in money terms, on the one hand,[24] and money in a form of currency, bank deposits and dollars, on the other. It is obvious that the character of the circulation of physical products differs from that of money: in the first case, the flow involves the movement of real things; in the second, it embraces the flux of claims to real things. As a result of each movement, either goods or money claims or both may change ownership. In the Soviet centralized system as a whole, the state (government) controls and manipulates reallocation of productive resources (real things, or inputs and outputs) using financial resources (money). But since the Soviet budget is the principal tool for redistributing productive resources, the money (the financial means) within the budgetary process becomes the major goal of the budget. In other words, in the world of the Soviet budget, claims to a thing must be more important than the item itself. It is the change in the titles to things and residuals of such changes in titles (surplus or deficit), which "makes" the Soviet budget and which will be the primary concern of this paper.

Budget expenditures

We will start the analysis of the Soviet budget operation with the expenditures side. The reason is apparent: under the Soviet conditions, as we recall, money follows physical products, which in turn follow the requirements of centralized planning.[25] Thus, the Soviet budgetary process

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occurs within the framework of the completed material production, in which productive resources are ready to be allocated and reallocated in accordance with the desires of their owner, the state. Within this structure, the action takes place with the help of money issued by the state. The distribution of money by the state to the prospective claimants of existing productive resources is the budget expenditures (from the point of view of the state).[26] With imports also taken into consideration, the budget spending may take form of either currency or bank deposits or dollar expenditures.

Budget expenditures in currency form are manifested by arrow 1 (Figure 1) which indicates that the general management of the national economy issues a certain amount of currency to the employees of the military goods sector (currency to M), to the recipients of the social welfare sector (currency to SW), to the employees of the sector of new construction in process (currency to NC), and to the state's own employees at all levels of the hierarchial pyramid (currency to GM).[27] Arrow 2 (Figure 1) shows these sectors of the Soviet population paying currency to the consumer goods sector (currency of M to C, currency of SW to C, currency of NC to C, currency of GM to C), while arrow 3 (Figure 1) reflects their purchases of consumer goods from the consumer goods sector (C to M, C to SW, C to NC, and C to GM).

Budget outlays in the form of bank deposits are represented by arrow 4 (Figure 2), which expresses the allocation (by the general management) of claims to capital goods by the military sector (bank deposits to M) and by the new construction-in-process sector (bank deposits to NC) for the continuation of their functioning, including for the needs of current maintenance. The arrow also registers claims by the general management at all levels (bank deposits to GM) and by the social welfare sector (bank deposits to SW) to capital goods for the purpose of current maintenance only.[28] Arrow 5 (Figure 2) designates the process by which bank deposits change hands[29] from their original claimants to the

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capital goods sector: from the military sector (bank deposits of M to K), from the social welfare sector (bank deposits of SW to K), from the new construction-in-process sector (bank deposits of NC to K), and from the general management sector (bank deposits of GM to K). By arrow 6 (Figure 2) a new relation has been established: having received bank deposits from the sectors ordering capital goods, the capital goods sector sells its products to its "customers" (K to M, K to SW, K to NC, and K to GM).[30]

Budget spending in dollar form is shown by arrow 7 (Figure 3). The latter reflects the hard currency payments made by the Soviet state to the foreign sellers of consumer, capital and military goods for Soviet domestic needs (dollars to CFM, dollars to KFM, and dollars to MFM, accordingly).[31]

Budget revenue

The Soviet literature on the subject emphasizes that "budget revenue is subdivided into two main groups: 1) receipts from the socialist economy; 2) receipts from the population (Zlobin *et al.*, 1975, p. 206). The peculiar characteristic of these receipts is that, whether their source is the national economy or the Soviet population, they are overwhelmingly channeled to the Soviet budget through sectors of the economy, but not through the population.[32] For this reason, in discussing the revenue side of the Soviet budget, we will disregard the aforementioned subdivision and treat all payments to the budget (money flow to the budget revenue) as coming from the national economy only.

On the revenue side of the Soviet budget, there are payments of: 1) currency by the domestic consumer goods sector, presented by arrow 8 (Figure 1)(currency of C to the "currency" box); 2) bank deposits by the domestic capital goods sector, manifested by arrow 9 (Figure 2)(bank deposits of K to the "bank deposits" box); and 3) dollars by the foreign markets, outlined by arrow 10 (Figure 3)(dollars of CFM, KFM, and MFM to the "dollars" box).[33] In his extremely insightful book, *Secret Incomes of the Soviet State Budget*, Birman presents the items on the revenue side in two forms: 1) "in

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the [relatively general] form in which the budget is accessible to the broad public" and which includes turnover taxes and payments of state[34] enterprises and organizations from profits (Birman, 1981, p. 1); and 2) in the more detailed form, in which "the list of sections of the revenue part of the budget that could be compiled from the [available] sources" reaches 32 and which comprises foreign trade (Birman, 1981, p. 20, and also pp. 21-22).[35]

For the purpose of analyzing the revenue side of our budgetary model, we will use: 1) turnover taxes and payments of state enterprises and organizations from profits of the broadly defined form of the budget revenue;[36] and 2) receipts from exporting of the more detailed form of the budget revenue.[37]

The Meaning of the Negative Residual of the Soviet Budget

The budget stream is a money flow. Hence, the budget will be balanced if the following conditions of the monetary circulation are satisfied:

1) An equality between budget revenue and budget expenditures with regard to each form of the money and, thus, to the total monetary amount of the budget revenue and expenditures:

a) In currency form, when the amount of cash (rubles) received by the state from the domestic consumer goods sector as a portion of the budget revenue (arrow 8, Figure 1) equals to the amount of cash (rubles) distributed by the state to the employees of the military, of the new construction in process and of the general management sectors, and to the recipients of the social welfare segment of the economy as a part of the budget expenditures (arrow 1, Figure 1)

b) In non-cash form, when the amount of bank deposits acquired by the state from the domestic capital goods sector as a portion of the budget revenue (arrow 9, Figure 2) is equivalent to the sum of bank deposits allotted by the state to the military, new construction-in-process, general management and social welfare

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divisions of the economy as a part of the budget expenditures (arrow 4, Figure 2)

c) In dollar form, when the amount or dollars obtained by the state from exporting products of its economy as a part of budget revenue (arrow 10, Figure 3) is equal to the amount of dollars spent by the state on importing foreign goods as a portion of the budget expenditures (arrow 7, Figure 3)

2) A parity between the total amount of monetary budget revenue and budget expenditures, but imbalances within each of the budgetary monetary forms (currency, bank balances, and dollars)

It is evident, therefore, that, if at least one of the requirements is not fulfilled, the Soviet budget will contain either a negative residual (deficit) or a positive residual (surplus). We will concentrate our analysis on the budget deficit to test the statement of the Soviet Finance Minister, which confirms the conclusion made by Birman in 1981 that "the Soviet budget has a rapidly increasing deficit" (Birman, 1981, p. xii). What, then, are the prerequisites for the existence of the budget deficit?

The currency form of the budget deficit

This form of the budget deficit is brought about when the actual volume of sales of consumer goods, destined for the consumption of the budgetary employees (GM, M, and NC) and recipients of the social welfare sector (SW) (indicated by arrow 3, Figure 1), falls short of the amount of incomes and transfer payments which, according to the state's projections, will be spent on consumption by the households of the budgetary sectors of the economy (shown by arrow 1, Figure 1).[38] Hence, the amount of currency received by the budgetary beneficiaries (arrow 1, Figure 1) will be bigger than the amount of cash actually spent by them on consumer goods (arrow 2, Figure 1). As a result, currency will be involuntarily saved by the budgetary recipients and, consequently, the equivalent amount of currency will not reach the state budget.

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Given that, "as a rule, both wholesale and retail prices [of consumer goods] are fixed for a relatively long time, considerably longer than one year" (Raiklin, 1988, 15, 5/6, p. 36), the following may cause such an outcome:

1) The underfulfillment of the plan for the production of consumer goods.[39] Then the actual budget deficit[40] will be accompanied by an unplanned decrease in inventories of consumer goods. This, however, will not be sufficient to meet the currency demand for consumer goods;

2) Too much currency issued by the state to the budgetary sectors of the economy with not enough consumer goods produced by the consumer goods sector to meet consumer demand;[41]

3) The attainment or even overfulfillment of the planned production of consumer goods whose quality does not satisfy consumers. Then the realized budget deficit will be associated with an unplanned increase in inventories of consumer goods;[42]

4) The precarious state of Soviet agriculture resulting in its almost systematic failures in fulfilling production quotas and, hence, in satiating the demand of Soviet consumers;[43]

5) Underdeveloped infrastructure leading to an enormous waste and inefficiency in the production of consumer goods, especially food products. Thus, a relatively large volume of articles intended for consumption will not reach the Soviet consumer,[44] leaving his money demand unsatisfied and his money income not spent;

6) Growing corruption within Soviet society, in which "living conditions [of Soviet man] depend... both on his ability to pay and on his mastery of 'obtaining' scarce consumer goods and services... " (Raiklin and McCormick, 1988, 15, 10, p. 29).[45] The resulting waste and inefficiency create a vicious circle of underproduction and, hence, of unfulfilled demand of the Soviet consumer.

The bank-deposits form of the budget deficit

The kind of the budget deficit, which is based on intersectorial exchange of the means of production, takes place when

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the monetary volume of investment goods for productive consumption by the budgetary sectors of the economy (GM, M, NC, and WC), whose movement is repre-sented by arrow 6 (Figure 2), is less than the amount of bank deposits apportioned to the budgetary sectors for the purpose of buying the means of production (arrow 4, Figure 2). The positive difference between the amount of bank deposits received by the budgetary sectors (arrow 4, Figure 2) and that actually spent by the budgetary sectors (arrow 5, Figure 2) will equal the size of the bank-deposits budget deficit.

Given the relatively fixed nature of prices of the means of production (like in the case of consumer goods), here is a list of some possible causes of the bank-deposits form of the budget deficit:

1) The planned production of investment goods is not met, and the unprojected decrease in inventories of investment goods is insufficient to satisfy the planned budgetary need for them;[46]

2) The overall extensive nature of Soviet development which is characterized by a situation "in which new construction [is] considered as the main way to extend production, despite the fact that many existing enterprises [have] not been re-equipped for many years" (Aganbegyan, 1988, p. 100);[47]

3) As a consequence of number 2 above, the unplanned growth in the volume of new construction in process results in the freezing of capital goods needed by the budgetary sectors of the economy;[48]

4) Due to the unpredictability of foreign events and the uncontrolled character of the Soviet economic and political system, too many claims in the form of bank deposits are issued to the military sector of the economy. The capital goods sector is simply unable to satisfy the insatiable appetite.[49]

The dollars form of the budget deficit

This kind of budget deficit is a negative residual between the dollars the Soviet state receives from exports (arrow 10,

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Figure 3) and the dollars the Soviet state spends on imports (arrow 7, Figure 3) of consumer, capital and military goods.[50] Given that these budgetary transactions are international commercial transactions and that, hence, prices of consumer, capital and military goods traded are no longer constant but continuously fluctuate, the following factors are responsible for this form of deficit:

1) Decreases in the prices of exported energy products which have inelastic price elasticities of demand;[51]

2) The increasing competition from developing nations in the markets for weaponry, resulting in a continuous decline in the exports of these products;[52]

3) The declining demand for Soviet non-energy, non-arms exports in the international markets;[53]

4) "The depreciation of the dollar [which] has compounded Moscow's difficulties by decreasing the purchasing power of Soviet exports which are priced largely in dollars" (McIntyre, 1987, p. 475);

5) The instability of Soviet agriculture, which is beset by both social and climatic problems and, therefore, the need to import agricultural products, especially grain, from Western countries in amounts which Soviet planners are increasingly unable to project;[54]

6) The Soviet lag in technology and, hence, the escalating need to purchase more "High-Tech" machinery and equipment from abroad.[55]

Formal versus actual requirements for the Soviet budget deficit

Having defined the conditions for the existence of the budget deficit, we cannot imply that the latter is in fact present in the Soviet Union. The prescribed terms are necessary but not sufficient for the budget deficit: one also needs to know the way the revenue side of the Soviet budget is determined by the Soviet financial planners.

In discussing the probable causes for the Soviet budget deficit, we referred to the figures which showed the Soviet budget in currency (cash) and bank deposits (noncash) forms

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as relations between the revenue producing budgetary parts of the productive sectors (consumer or capital goods' sectors) and the revenue absorbing (budget expenditures), non-productive, budgetary sectors of the Soviet economy. The budget revenue produced (in physical terms) by the productive sectors for the needs of the non-productive sectors was assumed to be given during any time under consideration. The non-budgetary part of the revenue produced (in physical form) was supposed to have no relation to the budgetary process in general.

But let us recall again that the Soviet economy is of a very specific nature: here the state owns all the revenue created within enterprises comprising the productive sectors. This should be contrasted to a country like the United States, where the federal budgetary process involves three major economic agents: 1) the federal government which, through its agencies, issues money, collects taxes and spends them, but which owns only minor amounts of productive resources and, hence, is not involved directly in the process of production of capital, consumer and military goods; 2) the private business sector, which owns and operates the overwhelming majority of the means of production, is engaged directly in the process of production of capital, consumer and military goods, is independent from the federal government, and which relates to the latter rather indirectly through tax payments; and 3) the private household sector, which purchases consumer goods from the private business sector and pays personal income and social security taxes to the federal government. Thus, in the United States the division of the total physical revenue produced by the private business sector (the material part of the national income) into its budgetary part (held by the federal government, assuming that there are no state and local governments) and non-budgetary part (held by the private business sector) is real. This is because such a division involves three independent owners.

However, in the Soviet case, the state is the proprietor of the principal means of production, of capital, consumer and

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military goods and, *at the same time*, the issuer of money, the tax collector and spender. Here, therefore, the division of the total revenue into the budgetary and non-budgetary portions is rather arbitrary. Indeed, as Hutchings emphasizes, it is really imaginary:

> Given the existence of non-budgetary financing, which also is envisaged by the authorities, the size of the budget is not rigidly determined....the distinction between investment which is financed out of budget grant, or out of retained profits, is not a fundamental one.... For the state is at liberty to make higher grants depend on larger in-payments by enterprises, or of course to reduce the size of both out-payments and in-payments (Hutchings, 1983, p. 16).

Thus, the budget residual (be this a deficit or a surplus) cannot be determined without taking into consideration the total amount of the revenue received by the Soviet economy as a whole. Under these circumstances, the budget deficit would mean one of the following: 1) A *formal* ruble budget deficit, which, given the relatively stable wholesale and retail prices of domestic consumer and capital goods, would exist when the total amount of cash and noncash claims by the Soviet state on behalf of the non-productive sectors to the productive sectors of the nationalized Soviet economy exceeds the total amount of consumer and capital goods that the productive sectors are *required* to produce for the non-productive sectors. These are requests of the non-productive part of the state to its productive part. The state can fulfill such demand by simply ordering the productive sectors to allocate a bigger share of their revenue for the satisfaction of the needs of the non-productive sectors. There is, however, a limit to such claims: the non-productive sectors cannot ask for more than the productive sectors are *capable* of producing (plus whatever has been left over from the previous period as inventories). From this perspective, as long as the *total* amount of consumer and capital goods produced by the productive sectors of the economy and reflected in the

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national income (plus-minus changes in inventories of the goods) is not less than the *total* amount of cash and noncash claims by the non-productive sectors of the economy, there is no place for an actual, real budget deficit. In a closed economy, the ruble (cash and noncash) deficit is rather artificial and imaginative.

2) An *actual* ruble budget deficit, which, given the relatively stable wholesale and retail prices of consumer and capital goods, would occur when the *total* amount produced by the productive sectors of the economy and reflected in the national income (plus or minus changes in inventories of the goods), is less than the *total* amount of cash and noncash claims by the non-productive sectors of the economy. In this case, even with a closed economy, the ruble (cash and non-cash) deficit is a reality.[56]

3) An *actual* hard currency budget deficit, which, given the fluctuating nature of the world prices of consumer, capital and military goods and of exchange rates, arises when the net amount of hard currency claims by the Soviet state on behalf of the non-productive sectors of the Soviet economy to the international markets is less than the amount of goods the Soviet Union requires and is actually supplied by the foreign markets.

Let us now attempt (from the formal and actual points of view) to define the character of the budget residuals (deficit or surplus) and estimate their sizes during the period from 1979 to 1987.

The character and the sizes of the Soviet budget residuals during the 1979-1987 period

Birman does not make the distinction between the actual and the imaginary Soviet budget deficit. For him, the deficit is real, because he takes into account not the whole of national income but only the portion formally claimed by the state. Birman's estimates of the Soviet budget deficit cover the period from 1940 to 1978 (Birman, 1981, p. 209). In calculating the formal budget deficit, he uses a methodical,

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Table 1
Budget Revenue and Budget Expenditures
As Percentages of the National Income[57]

Years	National Income (bln. rubles)	Budget Revenue		Budget Expenditures	
		Amount (bln. rubles)	As a Percent of National Income	Amount (bln. rubles	As a Percent of National Income
	1	2	3	4	5
1979	432.9	281.5	65.0	276.4	63.9
1980	450.8	302.7	67.2	294.6	65.4
1981	477.9	320.6	67.1	309.8	64.8
1982	512.9	353.0	68.8	343.1	66.9
1983	536.4	357.9	66.7	354.3	66.1
1984	559.0	376.7	67.4	371.2	66.4
1985	567.9	390.6	68.8	386.5	68.1
1986	576.0	419.5	72.8	417.1	72.4
1987	585.8	435.5	74.3	430.9	73.6

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step-by step approach, making many rather speculative assumptions. We will adopt some of his suppositions in a much more simplified way by analyzing the years from 1979 to 1987.

An actual budget deficit in 1979-1987? No!

There was no actual budget deficit in the Soviet Union during the period from 1979 to 1987, as well during the years analyzed by Birman. We are, however, not interested in the period prior to 1979.

We base our assertion on the fact that during each (1979-1987) year, neither budget revenue nor budget expenditures ever exceeded the amount of national income. Let us, for instance, take the lowest figures for the Soviet national income which do not include the international trade balance.

Table 1 proves the point just stated. But it also shows the tendency of both budget revenues and budget expenditures to take a larger and larger part of national income over time, and hence *apparently* to approach the critical point where the actual budget surplus stops and the actual budget deficit begins. We stress "apparently," since it is absolutely unclear what caused such an increase in the share of the budgetary portion of national income. Indeed, there could be two contradictory reasons for such a phenomenon: First, the increase might be attributed to the state's deciding to make idle turnovers of budgetary revenues and expenditures, without any real raise in the budgetary revenues and expenditures. Hutchings comments on this:

> Over time, the budget might grow simply as a result of enlarging the payments on both sides of the account. Unless one were aware of what was happening, one would see as an actual growth [or decline] what would really be a fictitious one (Hutchings, 1983, p. 16).

This possibility is confirmed by a Soviet author:

> At present [this was written in 1970] about half of the national income and the majority of net income are

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Table 2
New Construction in Process: 1979-1986
(at the end of year, in actual value for the builder, without collective farms)[60]

Year	Bln. Rubles	Percent of the Volume of Capital Investment for Year
1979	106.4	91
1980	105.1	87
1981	108.0	86
1982	108.9	84
1983	109.8	80
1984	124.3	79
1985	126.1	78
1986	139.1	79
1987	145.8	78

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> redistributed centrally through the channels of the state budget. Such enormous scales of budgetary redistribution do not conform, however, to the actual needs of the economy. A certain portion of the assets circulated through the budget (apparently, not more than 20 percent) do not undergo real redistribution, but only make idle turnovers: enterprises withhold for the budget specific amounts and receive them back by way of budget financing. This is explained only by the fact that the plans for the receipt of budget revenues are artificially overstated and are adjusted to a previously established percentage of growth, which creates the appearance of the 'constant' increase of the budget (Liberman, 1970, pp. 269-270).[58]

Second, the rise may have taken place because the real expenditures on non-productive sectors of the Soviet economy have grown faster than the amount of national income, due, say, to the continuous military buildup and/or the increase in the magnitude of new construction in process (reflecting the Soviet propensity to gigantism). It is hard to measure the actual sizes and the actual rates of growth of Soviet military expenditures because of the way the statistical data on the military outlays is compiled in the Soviet Union.[59] But information on NC (new construction in process) is provided by official Soviet statistics as shown in Table 2.

Although NC as a share of the volume of capital investment declined during the 1979-1987 period, it was still relatively high and even began rising again in 1986 as compared to 1985.[61]

It can be inferred that what Birman saw with alarm in 1981 and what the Soviets are now admitting[62] is not a usual budget deficit known in the West but a Soviet-style budget deficit. Birman, for instance, is correct when he characterizes

> ...the entire financial situation in the country as extremely critical...on the one hand, the financial crisis is an inevitable consequence of the overall economic crisis. On the other hand, the financial crisis complicates even more the overall economic situation and intensifies the

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Table 3
The Official State Budget of the USSR
(in billions rubles)[63]

Year	Budget Revenue	Budget Expenditures	Budget Surplus
	1	2	3
1979	281.5	276.4	+ 5.1
1980	302.7	294.6	+ 8.1
1981	320.6	309.8	+10.8
1982	353.0	343.1	+ 9.9
1983	357.9	354.3	+ 3.6
1984	376.7	371.2	+ 5.5
1985	390.6	386.5	+ 4.1
1986	419.5	417.1	+ 2.4
1987	435.5	430.9	+ 4.6

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Table 4
Gaps in the Revenue from the Soviet Economy
(in billion rubles)[65]

Year	Official Budget Revenue From Economy	Including: Turnover Taxes	Including: Deductions From Profits	Including: Income Tax From Cooperative and Public Organizations	Including: Deductions For State Social Security	Compiled Budget Revenue From Economy: 2 +3 +4 +5	Gap: 1-6
	1	2	3	4	5	6	7
1979	256.8	88.3	84.2	1.6	13.9	188.0	68.8
1980	276.8	94.1	89.8	1.7	14.2	199.8	77.0
1981	293.8	100.4	94.2	1.9	15.0	211.5	82.3
1982	324.5	100.6	102.4	1.9	22.3	227.2	97.3
1983	328.4	102.9	106.6	2.2	23.1	234.8	93.6
1984	346.0	102.7	115.6	2.6	24.5	245.4	100.6
1985	358.3	97.7	119.5	2.5	25.4	245.1	113.2
1986	385.4	91.5	129.8	2.6	26.5	250.4	135.0
1987	400.1	94.4	127.4	2.8	28.1	252.7	147.4

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> economic crisis. The term "economic crisis"...means an acute disproportion between the supply of goods and the demand for them. But in our context its meaning is somewhat unusual. Indeed, in Western economies a crisis is the lack of money, less than full usage of productive capacities, and unemployment of the labor force. In the Soviet economy it is just the opposite: [here] the economic crisis...means too much money, the impossibility of expanding production because of a shortage of capacities, and of labor (Birman, 1981, p. 225).

But, in our opinion, he is wrong when he concludes, using his elaborate calculations, that there exists an actual, and not simply a formal, budget deficit in the Soviet Union. What those who proclaim the existence of the actual Soviet budget deficit mean is that the drag of the non-productive sectors (especially of the military and NC sectors) on the Soviet economy is so big that the country can no longer afford for its productive sectors to grow at the same pace as they did prior to the 1970's; that the burden of preserving the great empire by the wasteful and inefficient socio-economic-political system is becoming more and more intolerable; and that if the growth of the non-productive sectors relative to the productive sectors is not stopped or reduced, the Soviet society will eventually deteriorate into a second-rate country.

On these points we have no quarrels with the proponents of the presence of a real budget deficit. We, however, reject the claim made by a Soviet official that "we have a shortage of goods because we have a[n] [actual] state budget deficit" (Gumbel, January 26, 1989). On the contrary, we think that if the Soviet Union has had a formal, fictitious, artificial budget deficit approaching the borderline of an actual budget deficit, it is because of a shortage of goods.

A formal budget deficit in 1979-1986? It depends....

According to official Soviet data, during this period the Soviet budget had always had a positive residual (budget surplus, or "budget profit," as Birman calls it) (Birman, 1981, p. 11).

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However, as Birman points out, figures for budget revenues are not reliable, since there exist gaps "in the total amount of revenues from the socialist economy," with the latter type of the revenue comprising a substantial share of the total budget revenue (Birman, 1981, p. 6):[64]

One should not jump to the conclusion that the amounts of the gaps corrected for the magnitudes of the official surpluses would represent the formal budget deficit over the 1979-1987 period: the gap must be adjusted for the budget revenue from foreign trade.[67] To make such an adjustment, we will assume that the share of export revenue going to the formal budget is the same as the share of national income allocated to the total formal budget.[68]

Are these gaps (corrected for official budget surpluses) what can now be called formal Soviet budget deficits of the 1979-1987 period? Let us again postpone our judgement and recall the statement made by Liberman that "not more than 20%" of the Soviet budget created by the economy are idle turnovers.[71] Do the relative shares of adjusted gaps in the official budget revenue from the economy confirm that proclamation?

With the exception of the unusual jump in the share of the budget revenue gap in 1986 and in 1987, the percentage figures for the years 1979-1985 validate the observation made by Liberman: the share of idle turnovers had never surpassed that of the 20 percent mark. So what can we conclude with regard to the formal budget deficit? Is it there or not? It depends on two factors: First, on whether idle turnovers actually exist or not. If there is no such thing as idle turnovers, then the formal budget deficit will be as shown in

If, on the other hand, idle turnovers are a reality, then the formal, self-made, self-inflicted, artificial budget residual will hinge on the actual magnitude of idle turnovers: In the extreme case, where the total amount of the adjusted revenue gap is assumed to be equal to the magnitude of idle turnovers, the formal budget residual will be the same as the official budget surplus. In between, where the amount of idle turnovers is smaller than the volume of the adjusted revenue

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Table 5
Official and Compiled Budget Revenue from Economy and Revenue Gaps to Total Budget Revenue (in percent)[66]

Year	Total Budget Revenue in Billion Rubles	Official Budget Revenue From Economy		Compiled Budget Revenue From Economy		Revenue Gaps	
		Billion Rubles	Percent	Billion Rubles	Percent	Billion Rubles	Percent
	1	2	3	4	5	6	7
1979	281.5	256.8	91.2	188.0	66.8	68.8	24.4
1980	302.7	276.8	91.4	199.8	66.0	77.0	25.4
1981	320.6	293.8	91.6	211.5	66.0	82.3	25.6
1982	353.0	324.5	91.9	227.2	64.4	97.3	27.5
1983	357.9	328.4	91.8	234.8	65.6	93.6	26.2
1984	376.7	346.0	91.9	245.4	65.1	100.6	26.8
1985	390.6	358.3	91.7	245.1	62.8	113.2	28.9
1986	419.5	385.4	91.9	250.4	59.7	135.0	32.1
1987	435.5	400.1	91.9	212.7	58.0	147.4	33.9

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Table 6
The Estimation of the Budget Revenue from Foreign Trade[69]

Year	National Income in Billion Rubles	Budget Revenue		Exports	
		Billion Rubles	Percent of National Income	Total in Billion Rubles	Budgetary Portion in Billion Rubles
	1	2	3	4	5
1979	440.6	281.5	63.9	42.4	27.1
1980	458.5	302.7	66.0	49.6	32.7
1981	482.4	320.6	66.5	57.1	38.0
1982	519.7	353.0	67.9	63.2	42.9
1983	548.1	357.9	65.3	67.9	44.3
1984	569.6	376.7	66.1	74.4	49.2
1985	577.7	390.6	67.6	72.7	49.2
1986	587.4	419.5	71.4	68.3	48.8
1987	599.6	435.5	72.6	68.1	49.4

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Table 7
The Adjustment of the Budget Revenue Gaps for the Budget Revenue from Foreign Trade (in bln. rubles)[70]

Year	Gaps in Budget Revenue	Budget Revenue From Foreign Trade	Gaps Adjusted for Budget Revenue from Foreign Trade
	1	2	3
1979	68.8	27.1	41.7
1980	77.0	32.7	44.3
1981	82.3	38.0	44.3
1982	97.3	42.9	54.4
1983	93.6	44.3	49.3
1984	100.6	49.2	51.4
1985	113.2	49.2	64.0
1986	135.0	48.8	86.2
1987	147.4	49.4	98.0

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Table 8
Percentage of Adjusted Gaps in the Official Budget Revenue From Economy[72]

Year	Budget Revenue From Economy in Billion Rubles	Adjusted Budget Revenue Gaps	
		Billion Rubles	As Percent of the Officil Budget Revenue From Economy
	1	2	3
1979	256.8	41.7	16.2
1980	276.8	44.3	16.0
1981	293.8	44.3	15.1
1982	324.5	54.4	16.8
1983	328.4	49.3	15.0
1984	346.0	51.4	14.9
1985	358.3	64.0	17.9
1986	385.4	86.2	22.4
1987	400.1	98.0	24.5

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Table 9
The Formal Budget Deficit With No Idle Turnovers
(bln. rubles)[73]

Year	Official Budget Surplus	Adjusted Revenue Gap	Formal Budget Deficit
	1	2	3
1979	+ 5.1	-41.7	-36.6
1980	+ 8.1	-44.3	-36.2
1981	+10.8	-44.3	-33.5
1982	+ 9.9	-54.4	-44.5
1983	+ 3.6	-49.3	-45.7
1984	+ 5.5	-51.4	-45.9
1985	+ 4.1	-64.0	-59.9
1986	+ 2.4	-86.2	-83.8
1987	+ 4.6	-98.0	-93.4

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gap, there will be a formal budget deficit.[74]

What is the purpose of their revelations?

Thus, on the question of whether there is a formal budget deficit in the Soviet Union and of its size no definite answer can be given. When one adds to this confusion the state of the Soviet price system, where prices, being established centrally and fixed for relatively long periods,[75] "do not reflect production costs" (Kurtzman, November 6, 1988), and the fact that "there is a range of considerable uncertainty surrounding [the Soviet military] estimates" (Gregory and Stuart, 1986, p. 367), such that no one in the country or abroad really knows how much the Soviet Union spends on the military – one's perplexity on the matter becomes even greater.

Why, then, when the *actual* budget deficit does not exist and the character and magnitude of the *formal* budget residual is undetermined, why, given all these ambiguities, have high ranking Soviet officials decided to "disclose" to the whole world the fact that they face problems in managing their finances and that the problems are translated into enormous and constantly growing deficits? The origin of the elite's "financial *glasnost*" is rooted in the necessity of placating domestic and foreign opinion, given the unhappy conditions of the present-day Soviet socio-economic system.

Among *domestic* causes of the frankness the following two should be singled out: First, "it is the existing pricing system...a radical reform of [which]...is needed to cover wholesale prices, tariffs, purchase prices in agriculture, retail prices, etc." (Aganbegyan, 1988, p. 117), and to eliminate subsidies on natural resources and agricultural products, especially meat and dairy products.[76] Estimates made at the United Nations indicate that price decontrol will lead to an incredible inflation rate, much worse than in China which has chosen its own road of restructuring of its economy.[77]

As the Polish experience shows, a drastic increase in prices is extremely dangerous politically. Thus, by announcing the presence of the budget deficit, the Soviet leadership wants to dramatize the existing situation, to blame the shortages of

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major food items on the havoc of the financial system, whose plight in turn stems from low prices of food products and, hence, to prepare the Soviet consumer for future increases in prices, if and when the leadership decides to do so.

A second reason stems from the existence of "rising savings that are the result of not having anything to buy" (Gregory and Stuart, 1986, p. 190).[78] The Soviet rulers have decided to denounce the Soviet *worker* for the budget deficit they discovered recently by charging that his pay is too high and that it has been increasing more rapidly than his productivity, thus creating shortages of food.

Ironically, the Soviet "socialist and proletarian" leadership, in order to justify their projected assault on the Soviet worker, appeals for theoretical help from one of the great saviors of capitalism, Keynes. Gumbel writes sarcastically:

> Move over Karl Marx, the Soviet Union has an unlikely new economic guru: John Maynard Keynes. ...Complaining about big wage increases this year that have heightened inflation concerns...[Soviet Finance Minister Boris] Gostev threatened to slap new taxes on firms that allow pay to rise faster than productivity. "As Keynes said," Mr. Gostev concluded, "there's no more destructive power than excessive wages" (Gumbel, November 2, 1988).

The major *international* reason for the recent financial disclosures is the absence of a strong belief on the part of the Soviet leadership in the ability of "*perestroika*" to make the Soviet economy work better and, thus, the need for outside help through the arrangement of foreign credits. By declaring the existence of financial disorders, the current rulers of the country are blackmailing the industrialized West. It is as if they are saying to the political leaders and big businesses of Western capitalism: "You must help us, especially by giving us more credits and providing us with better and more favorable conditions of trade. This is in your interest. If we go under, an extremely xenophobic and aggressive regime will come to power in the Soviet Union,

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which would at minimum revive the cold war and at maximum create a real danger of starting World War III".[79] The Soviet's loud and urgent pronouncements of the existence of budget deficit thus sound like pleas for help by a mortally sick patient begging, cajoling and threatening everyone around him to prolong his life.

Footnotes

1. A collective of Soviet authors proudly explains why this is the case:
   "The advantages of the finance of the USSR, as compared with the finance of a capitalist state, are determined by the mode of production, the nature and functions of the state. The finance of the USSR expresses the dominance of the new mode of production and new production relations, which preclude the exploitation of man by man. It acts as the finance of a planned national economy, is primarily of a productive nature and is employed for the purpose of satisfying most fully the rising material and cultural requirements of the members of society....The advantages of Soviet finance stand out particularly in the budget of the USSR, the main financial plan of the state directly linked with material production, which sets it apart radically from the budget of any bourgeois state....The finance of a capitalist state reflects the antagonistic contradictions inherent in this economic system and develops according to the laws of the anarchy of production and market competition, which precludes the possibility of its planning. The budget of a bourgeois state, in contrast to that of a socialist state, is not a plan but an estimate of probable revenue and expenditure. For many years the budgets of capitalist states, as a rule, have been ending in a deficit. In the USSR, budget revenue (except the war years) exceeds expenditure, which attests to the stability of the financial position of the state" (Zlobin, 1975, pp. 27, 28).
2. However, as Kurtzman comments:
   "Estimates vary, but the consensus is that the deficit has been running at about 7 to 8 percent of gross national product, compared with 3.5 percent for the combined Federal and state budget deficits in the United States" (Kurtzman, November 6, 1988).
3. By stressing the "physical" aspect of productive resources it is assumed that, on the revenue side of the budget, only "goods" are counted, while "services" are not. The supposition has been made in conformity with the prevailing practice of the Soviet "national income accounting systems [which] differ from their Western counterparts... [by] the restriction of the concept of production to material production....The product is 'material' if it involves a physical good..." (Becker, 1972, p. 71). From this angle, all revenues are originated and generated in material production but realized in non-budgetary and budgetary processes of exchange.
4. The so-called "collective" branch of the Soviet economy, especially in agriculture, is, in reality, a form of the same state ownership and at present does not diverge from the latter in anything but name. (For the difference in the social content of the "two forms of socialist property" in the past, that is, prior to the 1970s, see Raiklin

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and Gillette, "The Nature of Contemporary Soviet Commodity Production," 1988, pp. 82-88.)

5. On the nature and working of "socialist" planning, see, for instance, Ellman, *Socialist Planning*, 1982.

6. On this specific feature of the Soviet budget, Gregory and Stuart write:

> "The annual budget of the USSR is a consolidated budget, which encompasses the all-union budget, the state budgets of the republics, and the local budgets of provinces, regions, and districts. It is a much more comprehensive system of accounts than the budget of the United States, which encompasses only federal receipts and expenditures" (Gregory and Stuart, 3, 1986, p. 184).

7. On the difference between the state as an economic entity and the state as a political body and on the role of the enterprise within the Soviet economic system, see Raiklin and Gillette, "The Nature of Contemporary Soviet Commodity Production, " 1988, pp. 103-105, 107-111.

8. The concepts of "ownership" and "possession" are very helpful in understanding the point made by Gregory and Stuart. For the distinction between the two notions, see Raiklin and Gillette, "The Nature of Contemporary Soviet Commodity Production," 1988, pp. 104-105, 113-114.

9. Here is how Garvy describes the two kinds of money:

> "In the Soviet Union, household money (currency) is differentiated from enterprise money (bank deposits), and household banking from enterprise banking. All payments are separated into these two different circuits, which correspond to the separate markets for consumer goods and producers' goods...The difference between the two kinds of money is both physical and functional. For the population at large, currency alone serves as medium of payment, except for a relatively small amount of payments via savings accounts. By contrast, all payments among enterprises, economic and civic organizations, and government agencies (except for petty cash disbursements) involve deposit transfers on the books of the banking system. Currency and deposit money are not interchangeable. Deposits are exchanged for currency almost exclusively through payroll withdrawals" (Garvy, 1977, p. 76).

10. In 1987, they accounted for approximately 77 percent of the total revenue of the American (Federal, State and local governments') budget (calculated from *Economic Report of the President*, 1988, p. 342 as follows: personal tax and nontax receipts, 38.6 percent; indirect business tax, 25.1 percent; and a half of contributions for social insurance, or 13.5 percent).

11. In 1987 this figure was 91.9 percent, according to a Soviet statistical annual (see Gosudarstvenniy Komitet SSSR po Statistike, 1988, p. 589). On one of the major items of the revenue of the Soviet budget, turnover taxes, see Raiklin, "On the Nature and Origin of Soviet Turnover Taxes," 1988, pp. 10-46.

12. All expenses at all levels of governments are regarded as true expenditures, including transfer payments. Thus, transfer payments made by the Federal government to State and local governments are factual expenditures from the point of view of the Federal government; and those which are made by State governments to local governments are real spendings in the eyes of State governments. The basic reason for this phenomenon is that there is no distinction between productive and non-productive sectors of economy in the United States.

13. In the state's relations with enterprises of the material sector.

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14. When the state of a higher level is engaged in relations with the state of a lower level or when the state (at any level) spends on, say, services like commercial trade.
15. In the relation between the state (at any level) and the Soviet population when the state incurs expenditures on people's welfare.
16. To repeat: "productive" sectors of economy are those in which the revenue of the unified state budget in a physical form is generated; "unproductive" sectors are where the revenue in a physical form is not created but simply spent.
17. Consumer goods are "final" when they are ready for personal consumption; capital goods are "final" when they are ready for productive consumption.
18. The second sector, as it has been pointed out, embraces administration at all levels of the Soviet hierarchial structure, from the all-union to settlements and villages (see Zlobin et al, 1975, p. 211).
19. It is logical to presume that no capital goods bought from abroad by the Soviet state are used for productive consumption of the social welfare sector and of the general administration sector for two reasons: 1) the two sectors need capital goods only for their current maintenance, such as repairs, painting, etc.; and 2) what is more important, these sectors are treated as second-class departments of the Soviet economy because they are nonproductive from the point of view of the Soviet state.
20. For the mechanism of exchange, see Raiklin, "On the Nature and Origin of Soviet Turnover Taxes," pp. 23-27.
21. Indeed, as Birman makes it clear, "there is no question that [for instance] revenues from foreign trade enter the union budget" (Birman, 1981, p. 60). Of course, Soviet international economic relations cannot be reduced to commerce only: there are also tourism of the Soviet citizen abroad (budget expenditures) and foreigners to the Soviet Union (budget revenue, see Birman, 1981, p. 62), etc. But, following the Soviet path of "material production," our model will consider international commerce, that is, transactions of real goods, only.
22. We are making this assumption despite "the absence of a convertible Soviet rouble" (Aganbegyan, 1988, p. 152) and because of the domineering role still played by the American dollar in international payments. In addition to excluding all other currencies from the analysis, the barter (which is one of the main forms of international commercial relations of the Soviet Union with "socialist" countries) has been precluded as well (on concrete, as different from the simplified Soviet trade relations and international payments presented in the model of the paper, see Garvy, 1977, pp. 134-147).
23. That is, mostly by the Bank for Foreign Trade (on its operations, see Garvy, 1977, pp. 152-155).
24. Portions of the physical output of both consumer goods and capital goods sectors are presented in the model as non-budget revenue and expenditures. This implies that these parts of the product will not be reallocated by the state and, therefore, will not participate in the budgetary process.
25. On the interrelation between central planning as an initiator and adjuster of the budget and non-budget allocations of resources, material products as the prime target of central planning, and money as a passive tool of fulfilling physical plans, see Garvy, 1977, pp. 41-43.
26. The components of the expenditures side of the Soviet budget employed in the model correspond very roughly and approximately to the outlay items of the actual Soviet budget:

Expenditure Elements of the Model-Diagram	**Expenditure Items of the Actual Budget**

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General Management (GM)	Administration
Military	Defense
Social Welfare (SW)	Social and Cultural Measures
New Construction In Process (NC)	National Economy and Other Expenses

The major reason for the expenditure items of the model-diagram to be termed and classified differently than that of the actual budget is the general dissatisfaction (shared by this author) with Soviet economic statistics (On the subject, see Treml and Hardt, *Soviet Economic Statistics*, 1972). For instance, according to a Soviet statistical annual, 57.1 percent of the total expenditures of the 1987 budget was channeled into the national economy (Gosudarstvenniy Komitet SSSR po Statistike, 1988, p. 590). But the national economy, working for the domestic market, consists of two actually productive sectors: 1) producing finished consumer goods, and 2) producing finished capital (investment) goods; and one potentially-productive sector, new construction in process, generating no final output. So it is hard to say to which of these three sectors of the national economy the expenditures from the budget had flowed. But if one remembers that "investment, largely in plant and equipment, is a major component of government expenditure at all levels" (Garvy, 1977, p.85), then it becomes clear that, disregarding budgetary relations between the first two sectors of the national economy, it is the last sector which the government considers as the dominant recipient of the budgetary funds (budget expenditures on the national economy).

Another example is military expenditures. The official Soviet amount spent on defense in 1987 stands for 20.2 billion rubles, or 4.7 percent of the Soviet budget (Gosudarstvenniy Komitet SSSR po Statistike, 1988, pp. 588, 590). But non-Soviet estimates are considerably higher: 15-16 percent of GNP in 1987, as calculated by the CIA (see Birman, November 15, 1988), and even "somewhere between 20 and 30 percent of Soviet GNP in the last 10 years," according to Marshall (Marshall, 1987, 1, p. 484). Note that the Western estimates are calculated as a share not of the Soviet budget but of that of Soviet GNP, with the latter being 3.4 times bigger than the former (computed from Gosudarstvenniy Komitet SSSR po Statistike, 1988, pp. 14, 588). Thus the magnitude of the difference in the estimates is enormous.

The quantitative discrepancy simply reflects an uncertainty prevailing among Western students of the Soviet economy on the qualitative way the military expenditures are calculated in the Soviet Union. Reflecting their frustrations, Becker complains that "the classification of military outlays in Soviet national accounting has been the object of considerable speculation. Little hard evidence is available from Soviet sources, notably reticent on this score, with the result that a number of questions remain unresolved....Defense as an activity is outside the bounds of material production. Accordingly, the incomes generated in the defense establishment do not form part of primary incomes, and the activity cannot add to material product. On the other hand, labor engaged in the production of armaments and in the construction of military facilities is productive, and its output must presumably increase the social aggregate. In what categories of distributed output are defense goods and services to be found? From the published literature there are few certainties and many puzzles:

1. One of the few certainties or near-certainties is that military subsistence is classified with personal consumption [For the purposes of our analysis, military subsistence is included in the military expenditures (M)].
2. It is reasonable presumption fhat public consumption includes material

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expenditures in current maintenance of the military [In our model, productive consumption of the military sector of the national economy in the form of current maintenance is a part of the military expenditures].

3. One would suppose that military construction would enter accumulation in fixed capital, whether the productive or nonproductive component. But there is nothing in Soviet sources that directly verifies or refutes this notion [Our model puts military construction into the category of the outlays on new construction in process].

4. Similarly, one would also expect that military hardware would be found in accumulation, although occasional ambiguous references in Soviet sources can be interpreted to suggest classification with consumption. Logically, armaments might be classified either with investment or with additions to state reserves or both. There are a number of Soviet references to the military character of some state reserves. It is not always clear in such statements whether the reference is to stocks of civilian goods for emergency disposition or to stocks of military equipment per se [Our simplified model treats existing military hardware as totally belonging to the military expenditures by the state]" (Becker, 1972, pp. 90-91).

27. For example, in the latter case, wages, salaries and bonuses paid by all branches of the State Bank of the USSR to its employees. Those interested in the role played by the State Bank in the Soviet Union are referred to Garvy, 1977, pp. 52-64.

28. It will be assumed that all transactions of non-consumption expenditures are conducted in bank deposits. The assumption is not without reason, for in money relations between Soviet enterprises and sectors of the national economy, which do not involve purchases of consumer goods by the population, "only payments up to a small specified amount...may be made in currency" (Garvy, 1977, p. 80). Such payment will be disregarded in the analysis.

29. Unlike currency (rubles), bank deposits change hands not literally but rather (as footnote 9 tells) as "deposit transfers on the books of the banking system" (Garvy, 1977, p. 76).

30. This does not mean that the actual non-currency (noncash) circuit must start with payments of bank deposits and only then be followed by shipments of goods. In reality, as Garvy stresses out, the opposite takes place:

"The deposit transfer mechanism is designed to place payments between economic units on a semi-automatic basis while assuring prompt fulfillment of all obligations to the state budget....Payments are made as goods move through production and distribution channels for purposes determined by the planners according to rigid schedules. Goods must normally be paid for, in accordance with a fixed time schedule, shortly after documentary drafts (the main means of settlement) are received by the purchasers" (Garvy, 1977, p. 80).

Thus, fully aware of the realities of the Soviet economic life, we have changed the schedule of payments, receipts and purchases strictly for a better presentation of the working of the Soviet budget in accordance with the assumptions of our simplified model.

31. It is presumed that each of the three foreign markets (CFM, KFM, and MFM) possesses both physical goods (consumer, capital, and military, respectively) and the hard currency claims to the products (dollars). The further movement of foreign-made consumer, capital and military goods to their major Soviet recipients does not interest us here, for no currency (in a cash or bank deposit form) is allowed to circulate within the Soviet domestic market, except the ruble.

32. In 1987, less than 8 percent of the budget revenue originated from the population. The bulk of these payments came in the form of personal income taxes

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(90 percent), deducted by the enterprises from the wages and salaries of their employees and paid by the enterprises directly to the state budget. Only a very small amount of the revenue from the population (around 6 percent) was collected in the form of state loans realized among the population and paid by the latter directly to the state budget (calculated from Gosudarstvenniy Komitet SSSR po Statistike, 1988, p. 587). However, loans, in accordance with the recognized international practice, can hardly be considered as an element of the budget revenue, precisely because they are loans, that is, sums which have to be paid off. It is more plausible to treat them as one of the forms of credits the state uses to finance its budget.

One more comment is in order: the separation of the sources of the revenue of the Soviet budget into the two (national economy and the population) contradicts the Soviet "Marxist" general theoretical explanation of the roots of the state revenue. According to such interpretation, the only cause of any surplus product in a money form (of which the budget revenue is a portion which is centralized and appropriated by the state) is surplus labor of the employees of the enterprises engaged in material production (see Koryagin and Loginov, 1977, pp. 355 and 488). From such a perspective, the "national economy" is nothing but the organized labor process, where material, physical goods are created and distributed; while the "population" stands for the Soviet employees outside the process of production and distribution of material products, that is, within the sphere of their redistribution.

But together with Birman, who comments (although for different reasons) that "these very names [the revenues from the national economy and the revenues from the population] deserve criticism," we will assume that "this is not our business" in the paper (Birman, 1981, p.3, and also p. 17f).

33. As in the case of the budget expenditures, the three originators of the Soviet budget revenue (two domestic and one foreign) cannot be found in the actual Soviet budget, which is available to the general public. They have, thus, been "created" by splitting up the national-economy source of the budget. The reason of the exercise is, of course, obvious: we treat all the movements from (expenditures) and to (revenues) the Soviet budget as just money (cash, bank deposits, and dollars) flows. That this (at least in one of the aspects of the classification) has not been done arbitrarily is shown by the importance attached by Birman to the inclusion of "the revenues from foreign trade, a question which has not been previously studied.. ." (Birman, 1981, p. xii).

34. Recall from the previous comment (see footnote #4) that we are treating the so-called collective enterprises as a form of the state enterprises.

35. Birman assembles the second form of the budget revenue from the various Soviet sources. One of these sources is of a particular interest to us since, as Birman stresses out, "it refers to types of budget revenues about which nothing is said in other sources [as, for instance]...revenues from exports (...separated from customs revenues...)..." (Birman, 1981, p. 22).

36. That is, as classified in the Soviet statistical annual *Narodnoive Khoziaistvo SSSR*.

37. More or less in the line of the codification made by Birman (see Birman, 1981, pp. 60-81).

38. It is assumed that the state envisions no planned saving by households out of their disposable incomes.

39. For instance, it was projected that the production of articles of consumption in 1987 had to exceed its 1985 level by 9.2 percent. The actual percentage of growth was only 8.2 (Gosudarstvenniy Komitet SSSR po Statistike, 1988, p. 10).

If we take agriculture and assume that it, by and large, produces food or raw materials for the production of consumer goods, then, in the longer time span, its

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average annual rate of growth will be as follows:

	Percent			
1966-1970	1971-1975	1976-1980	1981-1985	1986-1990 (Estimated)
Plan 5.5	3.7	5.0	5.0	3.3
Actual 3.7	-.6	.8	2.1	1.0

(Directorate of Intelligence, 1988, p. 62). "All...estimates...are based on values at 1982 factor cost" (Directorate of Intelligence, 1988, p. 60).

40. That is, that which was not projected by the plan.

41. On points one and two, Birman comments that "The deficit is also worsened by [a] peculiarity of the Soviet economy: Not enough goods and services are produced for the Soviet people, who earn more than they can spend even on necessities and so are forced to save. This has resulted in a huge, nationwide savings accumulation. Since private investment is not allowed, the savings represent postponed demand for consumer goods. Because the state owns everything, the savings represents the state's debt to the population" (Birman, November 15, 1988).

42. Aganbegyan is surprisingly candid about this:

> "Effective demand is still not being fully met, especially for high quality items in a whole range of different goals. The improvements in quality that are being made in textiles, ready-made clothes and shoes are absolutely inadequate. The population refuses to buy many of the items produced and therefore stocks in the retail and wholesale trade and industry have risen.... Measured in days of average disposals, these stood at 96 days in 1980, but this figure had increased by 1985 to 118 days" (Aganbegyan, 1988, p. 179).

43. For a long time the official Soviet approach has been to blame the climate for the shortcomings and unpredictable nature of Soviet agriculture. But, as Johnson points out in cautious, diplomatic language, "There can be no doubt that climatic factors affect both the level of agricultural output and its variability in the USSR. But I believe that it has been shown that policy choices have influenced a significant proportion of these two effects. Different policy choices could increase total agricultural production significantly, and could reduce annual variability. The policy choices obviously are not simple ones in the framework within which Soviet agriculture functions" (Johnson, 1983, p. 91).

Thus the pressure to improve the supply of food products forces the new Soviet leadership to recognize "the critical need for a change in policy," just as Khrushchev was forced to introduce major agricultural initiatives some twenty five years ago (Linden, 1983, p. 211).

44. Flynn and Severin, for instance, emphasize that "An inadequate road network probably tops the list of causes for agricultural losses by the transport system. One Soviet writer in the early 1980s blamed 'lack of roads'-probably meaning both inadequate quantity and quality-for 5-7 billion rubles in agricultural losses annually, or 4 to 5 percent of the gross value of farm output as measured by the USSR, while another blamed 'lack of roads' for crop losses equivalent to 7 to 8 percent of the gross value of crop output....11 percent of regional centers and 18 percent of collective and state farms in 1985 still had no reliable link to the main road system. In contrast, in the United States, nearly all towns and villages are linked by paved roads and very few farms (largely in remote mountain areas) do not have direct access to paved roads" (Flynn and Severin, 1987, 2, p. 67).

45. "Soviet people rarely use the word 'to buy' to describe the process of acquiring

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consumer goods and services. They employ instead the word 'to obtain' to emphasize that the process cannot be reduced to the simple exchange of goods and services for money" (Raiklin and McCormick, 1988, 15, 10, p. 56f).

46. One of the major reasons for the constant underfulfillment of plans is the Soviet system itself, with its central planning leading to taut plans and, hence, bottlenecks.

47. This is not to say that the Soviet leadership does not see the problem and does not want to alleviate it. On this subject, see Leggert, 1987, pp. 236-256.

48. "This kind of situation leads to many undesirable consequences," writes Aganbegyan who, then, provides a list of these bad outcomes [Aganbegyan, 1988, pp. 100-101]. Although he does not mention the budget deficit by name, his arguments implicitly lead in that direction.

49. This is because the military appetite can no longer be met with increased industrial production, as it was in the past. Beginning in the 1960s, there is a clear trend of a decreasing average annual rate of growth of industrial production (from 6.5 percent in 1961-1965 to 1.5 percent in 1987), mainly due to the declining average annual rate of growth of industrial factor productivity (from -1.0 percent in 1961-1965 to -1.4 percent in 1987) and of the combined inputs of labor (manhours) and capital (from 7.6 percent in 1961-1965 to 2.9 percent in 1987) (Directorate of Intelligence, 1988, p. 63; figures for 1987 are preliminary).

50. Two clarifying points must be made: First, although we chose the foreign currency (dollars) form of the Soviet budget, it is necessary to emphasize that in total, "foreign trade currently accounts for about 5% of the Soviet economy, and much of it consists of trade with Soviet block nations," which operate on the non-hard-currency, mostly barter, basis (Gumbel, December 12, 1988). Although our simplified budgetary model does leave space for such commercial relations of the Soviet Union with "socialist" countries, some of these relations represent a heavy burden on the Soviet budget, being actually a form of economic aid. Take, for instance, Cuba:

"The CIA estimates of Soviet aid to Cuba," writes Zimbalist, Sherman, and Brown, "include the sugar price subsidy, the petroleum price subsidy, the nickel price subsidy, and balance of payments aid. The price subsidies are the difference between the implicit price received from (or paid to) the USSR and the world market price. The sugar price subsidy is by far the largest component of Soviet aid in the CIA reckoning. In 1983, for instance, with world raw sugar prices averaging 8.5 cents per pound and Soviet prices set at 45.9 cents (when converted at the official 1983 exchange rate of one peso equals $1.16), the CIA estimated sugar subsidies to be $2.8 billion or 68.3 percent of total estimated Soviet aid" (Zimbalist, Sherman, and Brown, 1989, pp. 378-379).

Second, the magnitude of the Soviet budget is smaller than the amount of Soviet national income. Thus, according to the Soviet statistical annual, 1987 national income was equal to 599.6 billion rubles, while the budget revenue of the same period reached 435.5 billion rubles, or around 73 percent (Gosudarstvenniy Komitet SSSR po Statistike, 1988, pp. 14, 587).

Hence, it would be incorrect to consider all foreign commercial transactions as pertaining to the Soviet budget. An attempt to divide the Soviet foreign trade into non-budgetary and budgetary parts will be made later, in the section dealing with the estimates of the Soviet budget deficit during the last decade.

51. Oil, oil products and natural gas are the principal items of Soviet hard currency exports. Their share in total hard currency exports rose from 16 percent in 1970, to 36 percent in 1975, to 53 percent in 1980, and to 58 percent in 1985 (calculated from Directorate of Intelligence, 1988, p. 74). However, because of the glut of oil in the international markets, "the price of oil beginning to weaken by 1982...oil

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production problems in 1985 and a substantial drop in world oil prices in 1986 pushed export earnings down" (McIntyre, 1987, pp. 474, 475) by $4,645 million, to 42 percent of total hard currency exports (calculated from Directorate of Intelligence, 1988, p. 74).

52. Arms sales are the second major source of the Soviet budgetary revenue in hard currency. Their share in the total amount of hard currency earnings increased from 10 percent in 1970 to 20 percent in 1975, to 21 percent in 1981. These reached their peak in 1982, climbing to 23 percent. However, beginning in 1983, sales of weaponry have been declining not only relatively (from 22 percent in 1983, to 21 percent in 1984, to 19 percent in 1985), but in absolute amounts as well (from $7,220 million in 1982 to $7,162 million in 1983, to $6,889 in 1984, to $4,935 in 1985) (percentages are calculated and absolute figures are taken from McIntyre, 1987, p. 478). The primary cause of this decline is the competition the Soviet Union (together with other major exporters of arms, such as the United States, France, Britain, and West Germany) has to face from third-world and newly industrialized nations. But, despite that, it must be noted that the Soviet Union still remains the biggest exporter of weapons in the world (35 percent of the international market share), followed by the United States (32.8 percent of the international market share) (see Stevenson, December 4, 1988, F1, F7).

53. McIntyre comments on this subject:

"Weak Western demand for Soviet non-energy, non-arms exports during the 1980s has hindered the growth of these exports; in 1985 these exports were 35 percent below the 1980 level. With the exception of chemicals...the USSR has been particularly unsuccessful in its efforts to expand exports of manufactured goods, especially machinery and equipment. In fact, the USSR has encountered increasing difficulties in marketing its equipment to traditional buyers in the less developed countries... (McIntyre, 1987, p. 478).

McIntyre does not explain the cause of this weak demand. One suspects that these Soviet troubles might be attributed to the general condition of the Soviet system, one of the most striking manifestations of which is the poor quality of the products it produces.

54. It should be mentioned, however, that these efforts are frustrated by the reduction in hard currency earnings from exports. It is probably for that reason that in recent years imports of agricultural products have been steadily declining both absolutely and relatively (see Directorate of Intelligence, 1988, p. 74).

55. Only in 1985 has the amount of imports of machinery and equipment dropped. In all other years it has been continuously growing. One can clearly see that to satisfy its technological needs the Soviet leadership has decided (as it did in the past) to sacrifice the requirements of its population by importing less agricultural products and consumer goods (see Directorate of Intelligence, 1988, p. 74).

56. Hence, if there was in reality a budget deficit, it would have a contradictory character: internally, it would mean that there is too much cash and noncash money chasing too few goods. Internationally, it would mean that there is not enough hard currency to buy goods in the foreign markets. In the first place, it would be a purely Soviet phenomenon; in the second, it would have the "flavor" of Western economies.

57. Figures in columns 1, 2, and 4 are from: 1979-1980 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, pp. 380, 522), 1981-1983 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1984, pp. 409, 547), 1984-1985 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1985, pp. 411, 559), 1986 (Gosudarstvenniy Komitet SSSR po Statistike, 1987, pp. 430, 628, 629), 1987 (Gosudarstvenniy Komitet SSSR po Statistike, 1988, pp. 389, 589, 590), 1987 (Gosudarstvenniy Komitet SSSR

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po Statistike, 1988, pp. 389, 589, 590).

58. One of the basic reasons for this kind of gimmickry is the very nature of the Soviet social structure, where, as Birman points out, "the Ministry of Finance, in conformity with the laws of the functioning of any bureaucratic system, is doing everything possible – and even the impossible – so that the USSR State budget would increase steadily and rapidly" (Birman, 1981, p. 207).

59. On the difficulty and the attempts by Western students of Soviet affairs to solve this problem, see footnote #26. The official Soviet figures were as follows:

Soviet Military Expenditures: 1979-1986 (in bln. rubles)

Year	Amount
1979	17.2
1980	17.1
1981	17.1
1982	17.1
1983	17.1
1984	17.1
1985	19.1
1986	19.1
1987	20.2

Sources for the first two columns: 1979-1980 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, p. 523), 1981-1983 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1984, p. 547), 1984-1985 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1986, p. 559), 1986 (Gosudarstvenniy Komitet SSSR po Statistike, 1987, p. 629), 1987 (Gosudarstvenniy Komitet SSSR po Statistike, p. 588). Only recently the Soviet leadership admitted that the military expenditures are much higher than reported in the state budget. Keller reports from Moscow that "Mr. Gorbachev...put total military spending at 77.3 billion rubles, equivalent to about $128.0 billion at official exchange rates, a figure considerably lower than most western estimates" (Keller, *Time* 8, 1989).

60. Sources: 1979-1980 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, p. 345), 1981-1983 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1984, p. 367), 1984-1985 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1986, p. 371, for the last column. For the second column, computed from the same source: for 1984, 157.3 of capital investment on p. 363, column 2, multiplied by .79; for 1985, 161.6 of capital investment on p. 363, column 2, multiplied by .78), 1986 (Gosudarstvenniy Komitet SSSR po Statistike, 1987, p. 332, for the last column; and for the second column, calculated from the same source: 176. 1 of capital investment on p. 331, column 2, multiplied by .79). 1989, (Gosudarstvenniy Komitet SSSR po Statistike, 1988, p. 299 for the last column; and for the second column calculated from the same source: 186.9 of capital investment on p. 298, column 2, multiplied by .78).

61. The heavy burden which the two most important non-productive sectors (military and NC) place on the Soviet economy in general and on the productive sectors in particular is recognized by the fact that: "...the Kremlin is making a major attempt to eliminate the deficit within the next two to three years through big cuts in capital investments [and, hence, in NC which is the major portion of capital investment]... About one-fifth of current capital investment in the civilian sector will be cut, along with double-digit reductions in the military budget that already have been announced by Mr. Gorbachev" (Gumbel, January 26, 1989).

62. Now new figures on the Soviet budget deficit come from Moscow. As Gumbel reports, Soviet economists have revised the data on the deficit given by Gostev at the end of last year (see quotation on page 1): "Mr. Abalkin, director of the Academy of

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Science's Institute of Economics and an influential adviser to Mr. Gorbachev, said the official figure [expected to total 35 billion rubles in 1989] didn't include government borrowing of more than 60 billion rubles from a so-called 'loan fund.' The borrowing should be counted as part of the deficit, bringing the figure to about 100 billion rubles..." (Gumbel, January 26, 1989).

63. Sources for the first two columns (budget revenue and budget expenditures) are as follows: 1979-1980 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, p. 522), 1981-1983 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1984, p. 547), 1984-1985 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1986, p. 559), 1986 (Gosudarstvenniy Komitet SSSR po Statistike, 1987, pp. 628, 629), 1987. (Gosudarstvenniy Komitet SSSR po Statistike, 1988, pp. 587, 588). The data for the third column (budget surplus) have been calculated as the difference between the data presented in the first column and in the second column.

64. There are also gaps in the budget revenue from the Soviet population (see Birman, 1981, pp. 4-5). However, they are very small and, therefore, are not considered in our estimates, which deal, as emphasized previously, with the revenue from the economy only (see footnote #32).

65. Sources: 1979-1980 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, p. 522), 1981-1983 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1984, p. 547), 1984-1985 (Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1986, p. 559), 1986 (Gosudarstvenniy Komitet SSSR po Statistike, 1987, p. 628), 1987 (Gosudarstvenniy Komitet SSSR po Statistike, 1988, pp. 587).

66. Sources: column 1 from column 1 of table 3; columns 2, 4, and 6 from columns 1, 6, and 7 respectively of table 4.

67. Birman reduces the gap by adding to the calculated budget revenue some other revenue items, such as: forestry revenue and rental income, local taxes and levies, so-called "other revenues," surpluses of budget assets, gaps in revenues from the population, economy from reduction of expenditures on management, and 0.5 percent of total amount of budget revenues (Birman, 1981, pp. 8-9, 51, 110). We will not follow him in this because, first, some of the revenue items are very small and, hence, very easily could be erroneous; second, the inclusion of the other revenue items is based on many rather speculative assumptions; and, third, we believe that a different approach might be made in the analysis: the recognition of a possibility of the existence of idle turnover, as recognized by Liberman (see quotation followed by footnote #58).

68. We are making this supposition because no information on the budgetary part of foreign trade is available.

69. Sources:

a) Column 1;
   1) 1979-1980: Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, p. 379
   2) 1981-1982: Calculated from Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1985, pp. 426 and 586 as follows:
      a) 1981: 477.9 (p. 426)+57.1 (p. 586)-52.6 (p. 586)=482.4
      b) 1982: 512.9 (p. 426)+63.2 (p. 586)-56.4 (p. 586)=519.7
   3) 1983: Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1984, p. 407
   4) 1984: Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1985, p. 424
   5) 1985: Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1986, p. 409
   6) 1986: Gosudarstvenniy Komitet SSSR po Statistike, 1987, p. 122
   7) 1987: Gosudarstvenniy Komitet SSSR po Statistike, 1988, p. 14

b) Column 2: from column 2, table 1

c) Column 3: the data of column 3 to the data of column 2 (in percentage)

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d) Column 4:
1) 1979-1980: Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1981, p. 537
2) 1981-1984: Tsentral'noiye Statisticheskoiye Upravleniye SSSR, 1985, p. 586
3) 1985-1986: Gosudarstvenniy Komitet po Statistike, 1987, p. 640
4) 1987: Gosudarstvenniy Komitet po Statistike, 1988, p. 602
e) Column 5: the data of column 4 multiplied by the data of column 3 and divided by 100

70. Sources:
a) Column 1: from column 6, table 5
b) Column 2: from column 5, table 6
c) Column 3: the data of column 1 minus the data of column 2

71. See citation by Liberman followed by footnote #58.

72. Sources:
a) Column 1: from column 2, table 5
b) Column 2: from column 3, table 7
c) Column 3: a percentage ratio of the data of column 2 to the data of column 1

73. Sources:
a) Column 1: from column 3, table 3
b) Column 2: from column 2, table 8
c) Column 3: the data of column 1 minus the data of column 2

74. We are not concerned in the paper with the ways the formal deficit would be financed.

75. "For over a half-century, more than 25 million prices have been set by the Soviet Government and its ministries. Some have been in effect for decades. Rents, for example, were last raised in 1928. The current price of bread was set in 1954. Meat prices have been in effect since 1962. What's more, the Soviet Union still relies on a rationing system to allocate raw materials and has no true system of wholesale pricing" (Kurtzman, November 6, 1988).

76. See Aganbegyan, 1988, pp. 133-134, 177-179.

77. Kurtzman cites a middle ranking official at the United Nations saying that "if prices were decontrolled, they could increase by three or four times... [compared with] an annual inflation rate [in China] of 50 to 60 percent" (November 6, 1988).

78. Here are some figures taken or calculated from a Soviet statistical collection which tells us the following story:

	1985	1986	1987
Savings by the population:			
In billion rubles	220.8	242.8	266.7
As percent of growth:			
To 1985	100.0	110.0	120.8
To the previous year	100.0	110.0	109.8
Retail sales:			
In billion rubles	333.0	341.2	350.3
As percent of growth:			
To 1985	100.0	102.5	105.2
To the previous year	100.0	102.5	102.7
Savings as a percent of retail sales	66.3	71.2	76.1

Gosudarstvenniy Komitet SSSR po Statistike, 1988: SSSR v Tsifrakh, 1988:
a) "Savings by the population":

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1) Amounts from p. 209
2) Percentage figures are compiled by the author

b) "Retail sales":
1) Amounts from p. 211
2) Percentage figures are compiled by the author

c) "Savings as a percent of retail sales": computed by the author

The data presented here starts with 1985 because this was the year of Gorbachev's ascendancy to power. The table reveals that savings by the population grew faster than the amount of retail sales of consumer goods to the population. As a result, the ratio of savings to retail sales, or an ability of a dollar of savings to purchase current monetary volume of retail trade of consumer goods has been gradually increasing from 66.3 cents in 1985 to 71.2 cents in 1986 to 76.1 cents in 1987. Although there could be various plausible explanations for this phenomenon, scarcity of consumer goods offered in the market is one of them (see Birman, 1981, pp. 145-150).

79. The Soviet masters find many a sympathetic ear in the West. As reported by the emigre newspaper *Novoye Russkoye Slovo*, Anthony Lui, who is a Moscow correspondent of the London newspaper *Evening Standard*, "believes that the West must pray God that Gorbachev remains in power. Otherwise, he predicts, there will be a resumption of the cold war, while in the USSR there will occur an economic catastrophe" (*Novoye Russkoye Slovo*, January 27, 1989).

The desire of the major industrial countries to bail out the dying Soviet empire is reflected in the volume of credits allocated to it:

> "During three years of the Gorbachev Administration Great Britain has agreed to provide the Soviet Union with credits with a total amount of $2.5 billion; FRG, of $2.0 billion; France and Italy, of $1.5 billion" (Repnin, November 30, 1988).

When President Mitterand was in the Soviet Union for a two-day visit at the end of November 1988, "The most obvious French gesture of goodwill and cooperation came on the first day of the visit, with an agreement that is expected to give Moscow a line of credit with French banks for the equivalent of $2 billion" (Barringer, November 27, 1988).

But, as a result of these "goodwill gestures," the Soviet net hard currency debt has been increasing rapidly: In 1984, the year before Gorbachev came to power, it stood for $10.7 billion; in 1985, it reached $15.7 billion; and in 1986, it was $21.2 billion (Directorate of Intelligence, 1988, p. 76).

This trend of short-term solutions applied to long-term problems continues....

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THE NEW HEGEMONY: DENG XIAOPING'S CHINA FACES THE WORLD

By Julian Weiss

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Paperback. Price $15.00

Author Julian Weiss examines the negotiating techniques of the PRC government during recent years, and finds that despite Beijing's new "opening to the world" in economic affairs, and less activist pose in relation to Third World countries generally, the official government position still exhibits signs of a policy aimed at ensuring ultimate Chinese "hegemony" at least on the Asian scene.

The PRC attitude toward Hong Kong and Macao, as exhibited in negotiations with the British and Portuguese government, revealed no effort to meet the concerns of the decolonizing powers to any discernible degree, every care being taken to ensure that Beijing would have ultimately full control over the populations of these two territories once they had been absorbed into the People's Republic of China. Similarly, despite propaganda concerning self-determination in Tibet, the historical record shows that no consideration has been extended to Tibetan public opinion or wishes, and that Beijing has remained determined to follow its own goals in Tibet, notwithstanding lip-service to local autonomy.

The implications for current PRC-Taiwan negotiations are also examined.

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STIMULATING SAVINGS IN THE INFORMAL FINANCIAL SECTOR OF LESS DEVELOPED COUNTRIES

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The urgent and growing need to generate savings as a means of stimulating capital formation and economic growth has long been emphasized by development planning fundamentalists. Neither the importance nor the need for continued research in the subject area has been found controversial. Rather, the subject matter has received well deserved although modest treatment in the literature, but the bulk of this has focused on the institutional financial sector, at times referred to as the organized or formal financial sector (FFS). Most of the studies have been microeconomic in nature. Comparatively little has been written on savings stimulation or savings mobilization in the informal financial sector (IFS)[1] of less developed countries (LDCs), a sector whose size remains large and whose activities and impact on the formal sector as the economy as a whole continues to grow and expand. This paper explores avenues for stimulating savings in the IFS of LDCs.[2] Both the characteristics and the structure of the institutions in this sector will be examined.

The informal financial sector, as Chandavarkar (1985) succinctly, states "covers all financial activities outside the gambit of institutional finance."[3] It is a heterogeneous residual sector comprising different entities such as money lenders, traders, landlords, pawn brokers, friends and relatives, whose distinguishing feature is the informal nature of its financial activities vis-a-vis the more organized institutional sector. This latter aspect, in particular, makes it all the more difficult to accumulate reliable data on the sector and to accurately esti-

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mate its size and level of activity. This is the case in developed and developing countries alike, but especially in the latter countries where the monitoring framework is less efficient or not readily available. Nevertheless, there is some evidence of the relative size of the IFS and the magnitude of its activities. (See Table 1). There are also survey studies providing further evidence of the significant and growing importance of the non-institutional financial sector, especially in Africa, the Middle East and Asia.[4]

Although the organizational framework of the IFS varies from one country to another and from one community to another, certain common characteristics are discernible, some of them more general than others. These characteristics typically revolve around the form of ownership and control, the scale of operation and the entry and exit requirements. It should be noted that while the IFS remains for the most part relatively more important and prevalent in the rural areas of most LDCs, it is also a growing urban phenomenon.[5]

These features have been clearly described and catalogued by Chandavarkar (1985, 133). Precisely, he noted that the ownership and control of the constituent entities is typically either (I) proprietary (*e.g.* money lenders, pawn brokers and indigenous bankers) with ownership being invested in individual or family business; or (II) mutual (the rotating savings and credit and savings associations (ROSCAS) common in some parts of Asia (*e.g.* the Nidhis and Chit funds in India, the Kyes in Korea), the Caribbean (*e.g.* the partner system in Jamaica), and most parts of Africa (See Table 1). The ROSCAS operate on a continually reconstituted stock of capital funds, based on fixed contributions from each member and/or distribution at fixed intervals to each member in turn by lot, agreement, or bidding and essentially with no element of interest tagged on. (III) The average scale of operation is relatively smaller compared to the institutional sector and the overheads in terms of staff, premises and equipment are also low and minimal. Similarly, the formal requirements of registration are minimal, nonexistent, or readily evaded. (IV)

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Table 1: Informal Savings and Loan Association in Africa

Liberia	Esusu	Fund (collective deposit) rotates
Liberia	. . .	No rotating fund; interest may or may not be charged members granted loans but nonmembers always are charged interest and always at higher rates than charged members
Liberia	. . .	No rotating fund; some or all funds mobilized may be used for community projects
Gambia	Osusu	Fund rotates
Sierra Leone	Asusu	Fund rotates
Senegal	Tontine	Fund rotates
Ivory Coast	Diaou moni, wari moni	Fund rotates
Ghana	Susu	Fund rotates
Ghana	Nanemei akpee	Fund rotates; reported for women traders
Ghana	. . .	Fund does not rotate; used by fish traders to control fish supply
Benin	Ndjonu, tontine	Fund does not rotate
Nigeria	Esusu, Isusu, Dashi, Adashi, Oha, Bam	Fund rotates in some groups but not others; some groups have both a rotating and a non-rotating fund
Nigeria	Osusu, contributions club, meeting	Fund does not rotate
Niger	Asusu	Fund rotates
Cameroon	Njangi, djanggi, tontine, credit rings	Fund rotates
Cameroon	meeting "bank"	Fund is fixed
Cameroon	Mandjon	Group pools funds for investments
Zaire	Ikelemba, kitemo Osassa	Fund rotates
Congo	Temo	. . .
Sudan	Sanduk, Khatta	. . .
Ethiopia	Ekub, Ikub	Fund rotates
Kenya	. . .	Fund rotates some groups
Uganda	Chilemba	Fund rotates some groups
Tanzania	. . .	Fund rotates some groups
Zambia	Chilemba	Fund rotates
Rhodesia	Chilemba	Fund rotates
Malawi	Chilemba, Chilyelano Katapila	Fund rotates
RSA	Umagelo clubs mahodisana, stokfel	Fund rotates
Egypt	Gameya	. . .

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There is complete freedom and ease of entry and exit.

On the functional and operational characteristics of the non-institutional sector, Chandavarkar (1985, 137) again identified five characteristics viz: (I) The costs of transactions and information are low because of the informality of transactions which for the most part require no documentary credits other than promissory notes, postdated checks or indigenous bills of exchange and an intimate knowledge of customers on the part of lenders.[6] (II) Loan transactions are more dominant than deposit transactions and most of the lenders operate with their own savings and capital. (III) There is freedom from *de jure* and *de facto* central banking controls on lending and borrowing such as cash reserves and liquidity ratios, interest rate and portfolio ceilings, selective credit controls etc. (IV) Effective rates of interest are higher than in the institutional sector and often exceed the ceilings under usury laws, which in any event are difficult to implement and monitor.[7] (V) The informal sector escapes the implicit taxation[8] of the institutional sector through government preemption of funds at controlled (ie., below equilibrium) rates of interest and the subsidized borrowing of the institutional sector. (VI) The end uses of informal credit are a mixture of consumption and investment credit with the former more prominent than is usual with institutional credit.

Other functional and operational characteristics of the non-institutional sector or the IFS include: (VII) The (often unwritten) recourse clauses in the event of failure to repay borrowed funds. In some cases the process could range from outright exoneration and clemency. (VIII) There are usually no formal structure for effectively verifying and monitoring the use of borrowed funds. (IX) Conflict resolution on financially related transactions take various forms ranging from individual, family or customary methods, to, as a last resort, instituting legal proceedings in the courts.

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Table 2: Uses of Funds Reported in the Literature: Qualitative Data

Uses	Sierra Leone	Liberia	Ghana	Benin	Nigeria	Niger	Cam-eroon	Zaire	Congo (Bra-zaville)	Ethi-opia	Zambia	Malawi	Sudan	RSA
Finance trade	x	x	x	x	x		x	x		x	x			x
Finance acreage exp.		x		x			x	x						
Buy "property"				x										x
Buy buses,truck,or cabs	x			x			x	x		x				
Buy bicycles for business					x									
Buy canoes			x											
Buy palm groves					x									
Buy fish nets			x											
Buy grain grinding mills				x										
Buy "tools"					x									
Buy seed					x	x				x	x			
Buy fertilizer				x			x				x			
Hire labor				x										
Build roads, sch'ls,or hosp.	x				x		x			x				
Buy livestock				x						x				
Finance education					x		x							
Finance bridewealth		x		x	x		x	x	x			x		
Pay taxes					x									
Provide collaterals					x									
Build houses			x	x	x		x		x	x				
Improve houses		x		x			x		x					
Finance litigation					x									
Finance travel								x						
Buy food/clothing	x				x	x	x	x	x	x				x
Buy bicycles				x	x		x					x		
Buy sewing machines												x		
Buy radios		x		x										
Buy jewelry													x	
Finance ceremonies		x		x	x		x	x						
Finance entertainments		x			x		x			x				
Pay medical expenses			x				x							

Source: Marvin P. Miracle, Diane S. Miracle, and Laurie Cohen, *Ibid.* p. 716.

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Stimulating savings in the IFS

The informal financial sector of LDCs appears quite heterogenous. It is considerably large in size and growing. The IFS is also unique in several aspects but in others reflects some of the characteristics of a well organized financial sector. Particularly of relevance is not only the sheer size of this sector but also the significant impact it has on the economy and on the formal institutions in so far as generating savings, providing credit and fueling the excess demand for credit from the institutional sector. Furthermore, the ability by mostly major lenders in the informal sector to borrow as well as lend to the formal financial sector and institutions creates yet another link between the formal and informal sectors and unveils an important facet of the present study to be addressed later on. It suffices to say that a proper linkage and a well developed and well coordinated relationship between LDCs the formal and informal sectors would benefit LDCs. On the other hand, governmental neglect of the informal sector, as evidenced by a failure to tap the resources of this sector, reduces the effectiveness of government fiscal and monetary policies and consequently can retard economic growth. This is particularly important in so far as the informal sector continues to show resilience, and continues to act as a vehicle of intermediation by borrowing or lending outside the informal sector, thus constituting in addition to generating savings, an important source of investment funds and a '*sine qua non*' for economic development. Any poorly executed corrective assault on the informal sector or any attempt to formalize the informal sector is liable to fail because its strength derives from its informality. The appropriate strategy, it would seem, is to encourage the institutional and formal sector to take on more of the desirable features of the informal sector, particularly in relation to the small savers and small borrowers.

Any attempt aimed at successfully and usefully stimulating savings in the informal financial sector of LDCs will require a determined and ongoing effort on the part of the LDC

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Table 3: Examples of Common Tax Incentives

Tax exemption	Countries	Types of Savings Involved
Bank deposits	Argentina, Guatemala Islamic Rep. of Iran Rep. of Korea, Malta, Panama, Paraguay	Liquid savings
Financial Investment company income	Dominican Republic Argentina, Cyprus Panama, Netherlands Antilles	Higher-risk savings
Building society income	Dominican Rep., RSA, Swaziland, Venezuela	Home-ownership
Mortgage bank income	Dominican Republic	Home-ownership
Life insurance/provident fund contributions	India, Malaysia	Low-risk, low-return, long-term saving
Pension funds	Nigeria	Low-risk, low-return, long-term saving
Dividends Intercorporational	India	Diversification in financing
Paid to foreigners	Rep. of Korea	Foreign equity investment
New equity from retained earnings	Indonesia	Diversification in financing
Interest and gains from government securities	Argentina, RSA, Swaziland, Venezuela, Panama	Nonbank government financing
Companies capital funds	Netherlands, Antilles, Portugal	Depreciation funds

Sources: Coopers and Lybrand, *International Tax Summaries 1983* (New York, John Wiley and Sons, 1983), in Mario I. Blejer and Adrienne Cheasty, "Using Fiscal Measures to Stimulate Savings in developing Countries". *Finance and Development*, June 1986, p. 18.

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governments:

1) to create appropriate financial and savings instruments;
2) to adopt appropriate institutional and policy measures aimed among other goals at forging the link and increasing the degree of cooperation between the formal and informal sectors;
3) to re-direct and expand the role of the banks and the other formal sector financial institutions towards a closer relationship with the informal sector.

Financial and savings instruments

As a positive step towards stimulating additional savings in the IFS of LDCs, there will be a need for government to reexamine and re-structure existing programs and instruments. In other words, LDC governments will have to be more innovative in their choices of financial instruments, particularly in designing new instruments that are consistent with the savings and investment preferences of the informal financial sector. The structural and functional characteristics of the informal sector[9] necessitate that such savings and financial instruments be convenient, simple, liquid, and easy to understand and use. On this score, it appears that interest bearing deposits, for example, with varying periods of maturity, will qualify in so far as they are appropriately designed to satisfy the primary saving motives of participants in the IFS. Since a sizeable amount of 'institutional' savings in this sector is aimed at accumulating funds for future investments, motivated partly by the possibility of obtaining additional funds on credit, available financial instruments must also reflect these expanded and additional motives. A survey study of a sample of LDCs indicated that only about 33 percent of non-institutional credit went to consumption, with about 20 percent going to agriculture.[10] Another study showed that most funds were used to finance trade and housing schemes (Table 2). Observations of this nature clearly suggest that a government or bank policy opting for the creation, for example, of a farm-deposit scheme, whereby the depositor is assured a loan for a viable project, or a housing

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depositor scheme, whereby loans for a housing related venture are made to a depositor who has saved a given proportion of the housing cost, would be particularly appealing. Depositors in this case may consist of individuals, families, partnerships, or community groups. Underlying such schemes will be a need for increased education in various forms of insurance — for example, crop, life, commercial, old age and pension programs. In this area, insurance-linked deposits with banks or local lenders may be appropriate and rewarding, assuming, however, that local money brokers and lenders will be willing and able to institute such insurance schemes and operate them in co-operation with the formal or institutional financial sector.

The establishment of rural banks can be useful in mobilizing and stimulating savings in the IFS. Arrangements such as the regular door-to-door collection process (pygmy deposits) common in some LDCs, such as India, can be particularly useful in the informal sector and therefore ought to be encouraged. The use of mobile banking, a widespread mechanism in Africa,[11] will appeal especially to the needs of operators in the IFS who are interested in formal institutional savings but who may be discouraged or constrained by the absence of convenient means of transportation and communication. It will also appeal to those who feel intimidated by the relative smallness of their savings deposits or by the formal processes and arrangements of the formal sector. Confidence will be further raised if such facilities are staffed (or partly staffed) with local people. To be widely accepted such facilities must also make it easy for savers to readily have access to their funds to transact their business.

A group or partnership form of savings deposit and borrowing schemes, similar to the so-called joint account in the formal sector, will encourage the pooling of resources as well as encourage joint investment ventures. Unlike the joint accounts that operate in the formal sector, these group deposits could be structured in such a way as to require all or some of the group members or partners to be present in order to effect a transaction, especially when making

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withdrawals.

Suffice to add that any attempt to devise and adopt any viable and successful form of financial and savings instruments in the IFS must invariably focus on the necessity for such instruments to be relatively simple. It must also require a minimum of time and paperwork on the part of savers. Similarly, the savings or credit institution must be flexible, especially with regard to size and form of collateral requested from borrowers. The informal nature of the IFS may require the government, managers and operators in the formal financial institutions to adopt informal and uncon- ventional techniques and attitudes. As the government, the central bank, and managers of institutions in the FFS strive to establish a more beneficial relationship with the IFS, recognition of this fundamental reality will be important especially if LDC governments hope to accomplish any reasonable degree of success in dealing with the IFS and in stimulating sizeable amounts of savings.

Institutional and policy measures

Besides the need to develop innovative savings and credit schemes, particularly tailored to the informal sector, there is also the need to adopt appropriate measures aimed at promoting co-operation among financial sectors. Some of the elements of such programs or measures as catalogued by Chandavarkar (1985, 139) might include:

I) Creation of a panel of guarantee brokers (like the compradores of the foreign banks in South East Asia) attached to each commercial bank. These brokers, who would be drawn from the ranks of non-institutional lenders, could work on a salary cum-commission basis to guarantee loans to small and risky customers.

II) Creation of credit risk insurance system in the institutional sector to insure loans to small or risky customers (on the line of the systems in India and Malaysia).

III) Provision of central bank rediscount or refinance facilities for credit instruments of the informal sector.

IV) Institutional lenders, particularly rural cooperatives,

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should earmark a certain proportion of their credit for essential consumption purposes. (The Sivaraman Committee (1976) on Rural Credit in India made a similar recommendation).

V) Banking procedures, including banking hours of formal lending and savings financial institutions, should be more flexible with the needs of the local community.

Such institutional and policy measures will also include:

a) those aimed at addressing the urban and large company bias of bank loans prevalent in the existing system.[12] Policies requiring geographical and regional as well as sectoral diversification of banks would be appropriate. Similarly, policies aimed at restructuring and broadening bank functions to accommodate the unique characteristics of the informal and rural sectors will be in the right direction. There is wide acknowledgement of the inadequacy (and in most cases the absence) of rural banking facilities in LDCs. Where some banks do exist, their working relationship with the informal and local financial warehouses and brokers is at best poorly coordinated. The latter situation calls for a need to:

b) create a closer link between banks and other financial institutions in the formal sector including local money brokers, credit unions and various informal savings and loan associations and savings arrangements. Such a link could reduce the overall cost of transactions between savers in the IFS and the banks, thus resulting in the more efficient utilization of financial resources. Admittedly, in comparison to commercial banks and the bulk of financial institutions in the formal sector, the rural banks, local moneylenders and pawnbrokers and other informal savings and loan associations are poor at mobilizing funds. They are nevertheless good savings and lending agencies because they can employ local staff at cheaper labor cost, can reach small entrepreneurs and small enterprises, and can gain access to rural and remote locations at low cost. Through loans and group technical assistance these local lending and savings institutions can enforce repayment by non-economic sanctions and can

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provide for the special needs of the small and private agencies, including both individuals and groups.[13] Although the exact nature and structure of such an institutional linkage varies from country to country and from one region to another, there are some indications that where they have been attempted, as for example in India, the Republic of Korea, Ethiopia, Indonesia, Malaysia and in the Republic of China, the results have been encouraging. In particular, we may note the use of traders and money lenders as local agents for lending in Indonesia and Malaysia, and farmers' organizations filling the same role in Taiwan and Korea, have shown a degree of success.[14] In Taiwan and Korea, "the bottom-up formation of an extensive network of cooperatives coupled with a government policy of a positive real interest rate"[15] accounted for the increased mobilization of savings. These records highlight the importance of innovation, and highlight the need for LDC governments to adopt and promote appropriate institutional measures aimed at forging a closer link between the formal and informal financial sectors.

c) Any institutional policy measures aimed at stimulating savings in the IFS must also address the issue of cost of borrowing and the rate of return on investment. It is only rational for savers, *ceteris paribus*, to be attracted by relatively higher real returns. Considering the characteristics of most savers in the IFS, their investment returns must of necessity provide adequate compensation for the tangible and intangible benefits[16] associated with savings institutions, and must be sufficiently higher for banks if they are to be attracted to the former. Similarly, any lending scheme must be structured to charge rates of interest comparable to those of local money lenders, taking into consideration the special advantages, from the borrowers view-point, of doing business with local brokers and lenders. In most cases, banks and other lending institutions in the formal sector could increase interest rates enough to cover the relevant risks while still keeping these below the rates of local lenders.[17]

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As in the case of saving deposit schemes, lending schemes must be adequately flexible, simple, timely to implement and use, and tailored to the informal sector borrower, for example, as regards collateral. Such loans of course should be judiciously channelled to users and to projects with greater potential for stimulating savings and investment.

d) An effective but relatively stable real interest rate policy on the part of the government will be required to ensure increased mobilization of funds in the informal sector. Similarly, a stable government and a consistent and judicious application of government policies (fiscal and monetary) will also be instrumental in raising the level of confidence as well as in minimizing the suspicion that exists between the participants in the formal and informal financial sectors. Given the importance attached to liquidity of financial savings by savers in the IFS of LDCs, the frequent changes in government and government policies, frequent closing of banks, constant changes in interest rates, interest rate ceilings, and relative prices only help to destabilize the economy, thereby exacerbating the already existing fears and distrust between the formal and informal sector and among IFS savers contemplating saving within the formal sector. The unintended outcome is a further strengthening of existing informal savings institutions and schemes, and enlargement of the informal market.

e) There is also the issue of taxation, the levying of which is at times used to explain reluctance on the part of savers in the informal sector to invest or commit their funds with formal financial institutions. The existence and proliferation of the so-called "underground economy,"[19] both within the formal and informal sector is often explained or attributed to government taxation policies, as operators try to evade paying taxes.[20] Government policy on taxation may if possible be fashioned to lessen the fear and burden of taxation and hence minimize the constraints on savings without significantly compounding or risking the decline in revenue. The use of broad based tax incentives (as illustrated in Table 3) in LDCs to stimulate savings has not been very prevalent.

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Where they have been attempted, the net effect on aggregate savings and the propensity to save is at best neutral or even negative.[21] Such incentives often take the form of reduction in the overall cost of savings (*e.g.* tax exemption on interest income), on capital gains or sales.

Critics, however, point to several weaknesses of broad-based tax incentives including the price distortion effect, revenue loss, poor administration, high administrative cost, potential for fueling inflation and inducing more spending and consumption as well as the adverse effect on the progressive tax structure and on the equitable distribution of income.[22] Similar criticism has been levied on the subsidization of rural credit schemes through the imposition of low ceilings on interest rates and/or allocation of massive doses of credit to the rural financial markets as a strategy to speed rural development and improve income distribution.[23] Nevertheless, where tax incentive plans can be made less broad-based, properly packaged and specifically geared towards the rural[24] and informal sectors including small savers, savings may be mobilized and deposits in the formal financial institutions may increase.[25] Such an incentive package may include some amount of tax relief or abatement on a given level of savings, or on crop or life insurance policy account established or carried. On the other hand, the government incentive plans could take the form of a carefully structured interest rate subsidy scheme for small farmers and for other community groups with sound savings generating and stimulating ideas and projects. The indiscriminate use of interest subsidy as has been observed in several LDCs, and the extension of such schemes mostly to the benefit of big farmers and large landholders at the expense of the majority of relatively efficient and qualified small entrepreneurs, farmers and small community groups may not be optimal in mobilizing larger savings. It is important, therefore, that any savings and credit schemes extended to the IFS of LDCs whether tax subsidized or not should be carefully selected, targeted and monitored to ensure optimal contribution

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towards savings as well as minimize the pro-consumption pattern of fund expenditure also prevalent in the sector (See Table 2).

f) Equally significant as a measure to stimulate savings in the informal sector is the government's attitude towards the IFS. Any attempt directly or indirectly on the part of the government to create legal or customary obstacles to the development and operation of the informal sector without providing a convenient and acceptable replacement will be counter productive and likely to fail. By the same token any attempt to project an antagonistic and confrontational attitude will only serve to widen the gap between the formal and informal financial sectors, and will be detrimental to any other strategies aimed at providing an efficient means of stimulating and allocating savings or other financial resources. Furthermore, indiscriminate and corrupt government and bureaucratic control of the IFS will drive the activities of operators underground. This will add to the already large and growing underground economy with its accompanying impact on savings mobilization as well as on the efficient implementation of government policies.[27]

g) Savings in the IFS could also be mobilized and stimulated through greater interest and concerted effort on the part of the government in disseminating, on a timely basis, relevant information to the IFS. Restriction and lack of access to relevant information, poor communication amenities, lack of formal education and little or no managerial and technical financial advisory experience constrains the ability of prospective and potential savers and lenders in the IFS to be properly linked to the formal sector. Consequently the latter are restricted from taking advantage of existing savings facilities in the formal sector and from pursuing or trying out other alternative savings mobilization schemes available in the formal sector. This may be explained by the lack of understanding of the informal sector and the sector's potential positive role in mobilizing more savings. It may, after all, rightfully reflect the relative apathy and misconception on the part of the government and institutions in the formal

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financial sector towards IFS, sometimes labelled the "disorganized" sector.[28] The rift between the two sectors and the accompanying information gap could be minimized and relations and attitudes improved. Constant seminars and lectures in rural areas to community groups and social clubs[29] by experts from the government, financial institutions, academia and local elites could be invaluable in breaking the cycle of fear, distrust, and ignorance, and may open up new savings avenues and opportunities.

Special role of the central banks and other financial institutions in the formal sector

Central Banks in LDCs will need to play a greater role beyond that of regulating, in order to ensure increased mobilization of savings in the informal sector. As primary regulatory and policy making bodies, the Central Banks must strive not only to control and promote efficiency in the financial markets but also to be development-oriented.[30] Central bank policies and strategies have often been urban-biased and advertently or inadvertently focused on the formal financial sector. There has been very little systematic and determined effort on the part of the Central Banks to address the IFS and to consider the effects of their policies on this sector. Similarly, the urgent need to bring the IFS activities under the Central Banks control and tap its good qualities has yet to be fully implemented, let alone, successful. With few exceptions,[31] the Central Banks of most LDCs seem to be inadequately conversant with the functioning of the IFS and the need to maintain a continuous, close and active relationship with the IFS. Even where policies are specific policies aimed at promoting the need for such relationships exist they are scarcely operational. The Nigerian situation exemplifies the Central Bank position in most LDCs.

Efforts on the part of the government of Nigeria to promote rural banking have progressed slowly. They have been met with persistent reluctance and inaction from the banks, and neither the Central Bank nor the government

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has been able to effect compliance. Sanctions and penalties and both verbal and written threats have been imposed on commercial and savings banks to effect compliance. Yet these have been ignored with impunity, reflecting the weakness prevalent in the government and Central Bank policy enforcement mechanisms. It also underscores the ability of these institutions to 'buy' their way out of sanctions and penalties administered by a ban on corrupt bureaucracy.

Even some of the specialized financial institutions (*e.g.* mortgage banks, farm banks and development banks), primarily owned and controlled by the government and established partly to cater to the rural sector, tend to be located in urban and semi-urban regions. Such enterprises have consequently failed to mobilize adequate savings in the IFS. It would seem that the Central Banks of LDCs have to show greater interest and understanding and take more direct and positive steps towards mobilizing resources in the informal sector. This will entail pursuing strategies that will lead to the type of successes recorded for the IFS in Japan, Korea, and India.

This may include steps and policies aimed at; 1) providing necessary information and basic banking education needs, especially to the rural sector; 2) cultivating social and business relationships with the informal sector so as to increase confidence and understanding as well as dissipate the fears and suspicions that exist between and within the sectors; 3) providing incentives to non-government-owned financial institutions to respond to the needs of the rural and informal sectors; 4) facilitating savings as well as other banking formalities, and savings and credit instruments that will be easily understood and will be appropriate to the needs of the IFS; 5) encouraging through incentives, geographical, regional and sectoral diversification of banks.

The Central Banks areas of concern and activity should include, as noted by Bhatt,[32] establishing policies aimed at: 1) widening and deepening the geographical and functional scope of the banking system, 2) establishing organic links

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between the banking system and the informal credit markets on the one hand and between the banking system and the agencies providing technical, managerial and entrepreneurial guidance and assistance on the other, 3) linking specialized financial institutions with the banking system, 4) promoting Social Security institutions and 5) ensuring a positive real interest rates that reflect the characteristics of various financial instruments.

Summary and conclusion

There is very little disagreement concerning the proliferation of activities in the IFS in both LDCs and developed countries alike. There is also little doubt that the informal sector has a growing and significant impact on economic policies and on the economies of LDCs. Uncontrolled as they may be in most LDCs, the activities of the IFS can have a distorting effect on relative prices, costs and resource distribution and the efficient implementation and monitoring of government economic policies. If the sector is left untapped and uncoordinated as is presently the case in most LDCs, the proliferation of IFS activities could result in poor resource mobilization, especially of savings, poor allocation of resources, and consequently a waste of scarce resources. This makes it all the more important, especially given the present economic conditions and problems confronting LDCs, to explore various means of stimulating savings in the IFS. There is little evidence that LDC governments have pursued a continuous and meaningful policy in this area.

The author of this paper draws the conclusion that any viable measures aimed at stimulating savings in the IFS of LDCs could be judiciously coordinated by governments implemented by effective policy through the Central Banks.

Better institution-targeted incentive schemes and packages will be needed, often aimed at encouraging financial institutions in the formal sector to widen and deepen their scope of operation and to research savings programs that will appeal to the special needs, circumstances, and characteristics

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of the IFS. With adequate and properly targeted incentives many savings and credit institutions in the IFS may succeed in entering the formal sector.[33] Increased and continuous government support and participation will be needed in the areas of information dissemination and rural education in order to bridge the barrier of suspicion and fear which currently separates operators and participants in the informal from the formal financial sectors.

More support from the government via appropriate fiscal and monetary policies, especially the former, would facilitate a working organic link between the financial sectors. Government policies on interest rates and taxation as they affect the informal sector must be constantly re-examined with a view of helping stimulate and encourage increased deposits of savings with the formal financial institutions. Equally important is a clearer understanding on the part of government that any policies and actions aimed at stimulating savings in the LDCs must of necessity recognize the existence of the various informal savings and loan associations and social organizations that for the most part represent important powerhouses of economic activity in such countries. The Central Banks of LDCs must play an active role and show continuous interest in the activities of the IFS. They must also pursue a more development-oriented approach as opposed to purely regulatory roles. Furthermore, the unconscious policy bias of LDC governments in favor of the formal financial sector, and their seemingly uncaring, unsupportive, uncompromising, and confrontational approach and attitude towards the IFS, must be replaced by a greater interest including continuous contact, co-operation and encouragement. In this way government economic policies could become more effective. On the contrary, any attempt to adopt high-handed control measures over the IFS will only create additional instability in the economy and widen the existing gap between the formal and informal sectors. Unproductive in the long-run, such a strategy may result in yet poorer savings mobilization and poor resource utilization. By the same token, any measures aimed at totally eliminating

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the informal financial sector activities will undoubtedly face resistance and probably failure. Indeed, any approach or policy that persistently undermines the strength of the IFS may prove to be detrimental to economic growth in the long-run.

Footnotes

1. For all elaborate discussion and usage of the terms, formal/informal, organized/unorganized, institutional/non-institutional financial sector, See John Weeks, "Policies for Expanding Employment in the Informal Urban Sector of Developing Economies," *International Labor Review*, Vol. III, No. 1 (Jan. 1975), pp. 1-5; S. V. Sethuraman, "The Urban Informal Sector: Concepts, Measurement and Policy," *International Labor Review*, Vol. 114, No. 1 (July-August 1976); pp. 69-73. See also, Anan G. Chandavarkar, "The Non-Institutional Financial Sector in Developing Countries: Macroeconomic Implications for Savings Policies," *Savings and Development* No. 2, (1985), p. 129. In this study the term Informal Financial Sector (IFS) is used within the same definitional framework described by Chandavarkar, and includes most elements of the so called unorganized and non-institutional sector. The usage in this study however, differs slightly in that it does not include or deal specifically with the underground economy; a sector, whose existence is said to be based or motivated primarily by the desire to escape from government controls and from paying taxes.
2. Because of the close inter-relationship between savings and credit, and savings and investment needs in the IFS, some of the discussions in this study will include measures aimed at addressing and meeting the credit and investment needs of the informal sector.
3. Chandavarkar, p. 129.
4. *Ibid.*, pp. 130-132.
5. The Republic of Korea and Taiwan are two newly industrialized countries which retain significant and sizeable unorganized urban financial markets.
6. This reflects the operation of the so called "Lemon Principles", described by George A. Akerlof, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," *The Quarterly Journal of Economics*, No. 84, (August 1970), pp. 497-98.
7. There is evidence however, that these rates are also declining, largely due to improved links between the institutional and non-institutional sectors. There is also some evidence of narrowing gap between interest rates for these sectors. See U Tun Wai, "A Revisit to Interest Rates Outside the Organized Money Markets of Underdeveloped Countries," *Quarterly Review*, Banca Nazionale del Lavaro, No. 122, (Sept. 1977).
8. Tax evasion and evasion from government monitoring and control underlies the underground economies, at times referred to as Parallel or Shadow Economies. For more discussions on the Underground Economy, See Victor Tanzi, "The Underground Economy," *Finance and Development*, (December 1983); Carol S. Carson, "The Underground Economy; An Introduction," *Survey of Current Business*, 64 (May 1984 and July 1984);
9. See the section on Structural and Functional Characteristics of the IFS in LDCs discussed earlier.
10. Chandavarkar, p. 132.
11. Marvin P. Miracle, Dian S. Miracle and Laurie Cohen, "Informal Savings Mobilization in Africa," *Economic Development and Cultural Change*, (July 1980), p. 701.

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12. In the rural sector where a significant amount of informal market activities abound, both the commercial banks and even the State funded financial institutions have failed to mobilize much savings.
13. V.V. Bhatt, "Improving the Financial Structure in Developing Countries," *Finance and Development*, Vol. 23, No. 2. (June 1986), p. 21.
14. *Ibid.*
15. Avishay Braverman, and J. Luis Guasch, "Rural Credit Markets and Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory," *World Development*, Vol. 14, No. 10/11 (1986), p. 1256.
16. Some of the non-tangible benefits and advantages usually include such factors as timeliness, quickness of service, trust, convenience, concessions and flexibility on collateral requirements.
17. See footnote no. 7.
18. Mario T. Blejer, and Adrienne Cheasty, "Using Fiscal Measures to Stimulate Savings in Developing Countries," *Finance and Development*, Vol. 23, No. 2, (June 1986), p. 17.
19. Also called 'Illegal', 'Shadow' or 'Parallel' Economy. See footnote No. 8.
20. Although the informal financial sector in many ways reflects the workings of the underground economy, the existence of the IFS as described and used in this paper is not characterized primarily by the two basic, motives used to explain underground economy (*ie*. evading taxes and control). On the other hand, because the underground economic activities are not restricted, only to the IFS but pervades the formal financial sector as well, no attempt was made to explicitly identify and address the phenomena of underground economy in this study.
21. Blejer and Cheasty. pp. 17-18.
22. See Blejer and Cheasty, pp. 17-18; Braverman and Guasch. pp. 1253-1257.
23. Braverman and Guasch, pp. 1253-1257.
24. The rural sector of LDCs are largely informal in nature and in their operations.
25. The major criticisms of tax and incentive programs have often centered on their indiscriminate application,poor implementation and monitoring. Failure of savings and credit subsidy policies and schemes in LDCs may also be attributable to the lack of appropriate incentive devices within the financial institutions as much as to the inefficiencies and corruption of unscrupulous managers and government officials.
26. Ray Anandarup, "Trading and Pricing Policies in World Agriculture," *Finance and Development*, Vol. 23, No. 3, (Sept. 1986) p. 4.
27. For some insight into possible effects of the underground economic activity on government policies, See Joel F. Houston, "The Underground Economy: A Troubling Issue for Policymakers," Federal Reserve Bank of Philadelphia, *Business Review*, September/October 1987, pp. 3-12.
28. Other words that have occasionally been used to describe the informal sector include: the 'unorganized' or the 'unprotected' sector.
29. For a list of bibliographical readings on the role of Social Clubs and Other Social Organizations in LDCs in the Mobilization of Savings, See Marvin P. Miracle *et al.*, pp. 721-724.
30. This will include striving for an overall balanced development through *e.g.* diversification of banks and banking facilities and services to other sectors.
31. Among the LDCs, Japan, the Republic of Korea, Mexico, India and Brazil have been at the forefront of innovations in the area of savings mobilization; most of them benefitting largely from support by their central banks.
32. Bhatt. p. 22.
33. The "Banque Unie de Credit" of Cameroon, the countries sixth bank was

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founded in 1975 by a savings pool initially set up as a rotating fund association; Reported in *Miracle et al.*, p. 721.

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BOOK REVIEW ARTICLE

A DARWINIAN VIEW OF HISTORY

Daniel R. Vining, Jr.
Population Research Center, University of Pennsylvania

DESPOTISM AND DIFFERENTIAL REPRODUCTION: A Darwinian View of History
L. L. Betzig
New York: Aldine Publishing Company, 1986.

Author L.L. Betzig has written a book which is exactly what the title says it is about. The author's fertility variable is harem size, which is okay by me. It may not be for more exacting demographers, but the topic is interesting and invites some important comments. The main data set is the Murdock-White sample of about 100 societies. Most of them are hunter-gatherer societies. So the author does not explain much about human history, if human history is taken to be the evolution of high civilizations. The author has some chapters devoted to despotism and harems of despots. These chapters are mainly anecdotal in nature. They tell some particularly gruesome tales about people who gave offense to despots and what happened to them. The chapters on fertility tell us about what happened to people who tried to intrude into harems of despots. They are also gruesome. For this reason, these chapters make for particularly spellbinding reading, though I have read her accounts before in Betzig (1982). However, these chapters seem to be more detailed than her article, Betzig (1982).

It is when we get to the author's statistical analysis that we begin to have problems. The author refers to something called Galton's problem, which I've never heard of and I doubt many of you have heard of either. Galton's problem has something to do with network autocorrelation, whatever

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that is. I personally got very confused with her statistical analysis. But I was convinced by her previous accounts of despots' behavior and harem size in so-called primitive societies.

Demographers don't talk or write much about differential reproduction. They don't talk or write much about population quality either, which is intimately connected to differential reproduction. This is despite the fact that the goal of the Population Association of America (PAA) is defined in its constitution as the study of population in its "quantitative and qualitative aspects", and that for a number of years the PAA's *Population Index* classified articles under the heading of "policy on quality". The classification, however, is moribund and no longer appears in the *Population Index*'s Table of Contents. In short, the subject of population quality has disappeared from the map of American demography (but not entirely from that of economics, though in somewhat disguised form, see Kuznets, 1974). The only trace left of it is as a kind of relic word in the PAA's charter. In my view, this silence is not because American demographers deem the subject unimportant but rather because of its association in so many persons' minds with eugenics (indeed, many of the PAA's founders were eugenicists, Kiser, 1981) and the interest shown in the latter by National Socialists, the implied association with which in turn could potentially harm one's career and standing in scholarly circles. The author's book is about differential reproduction and is therefore ultimately about population quality.

The author's hypothesis is that the Darwinian model really works for human beings. She says this quite explicitly. In her own words, "men and women should have evolved to seek out positions of strength as a means to reproduction. Power, prestige, and privileged access to resources should be sought, not as ends in themselves, but as prerequisites to procreation. A lease to use power to serve one's own interests should translate into the production of children and grandchildren. Despotism should be expected to coincide

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with differential reproduction." The only problem with this hypothesis is that it doesn't seem to work for what we call civilizations. Most people who read this journal will not be very interested in hunter-gatherer societies, but will want to know about differential reproduction in modern societies, both between and within them. We know that differential reproduction has political consequences. Witness Trinidad and Tobago, where there is a higher birth rate among the east Indians than blacks; Guyana, where I think there is the same problem; South Africa, where the blacks have a higher birth rate than the whites; Yugoslavia, where the Albanians in the province of Kosovo in the republic of Serbia have a higher birth rate than the Slavs; Israel, where the Arabs have a higher birth rate than the Jews; Lebanon, where the Moslems have a higher birth rate than the Christians and the Christians, who control the government, have gone so far as to eliminate the census; the Soviet Union, where the European republics have a lower birth rate than the Moslem republics; Singapore and Malaysia, where the Chinese have a lower birth rate than the Malays; and, finally, the world as a whole, where the developed world has a lower birth rate than the third world. These facts mean that one population's proportion is growing at the expense of the other's proportion. The populations with higher birth rates are generally the poorer ones. Unfortunately, the author of this book does not give us much insight into this problem. She does have a chapter entitled, for some reason, "Democracy" at the end of the book which is supposed to give us some ideas about differential reproduction in a modern setting. But I did not get any ideas from this chapter, and I doubt that many of you will either.

There is a problem with biology and human reproduction, which the author does not address herself to. In most so-called civilized societies, we observe an association between laziness (including reproductive laziness) and luxury. The author does not cite the many writers who have addressed this problem (see, for a review, Weyl, 1976). I now offer you, like the author, quotations from their work. Polybius: "In our

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time all Greece was visited by a dearth of children and generally a decay of population... this evil grew upon us rapidly, and without attracting attention, by our men becoming perverted to a passion for show and money and the pleasures of an idle life, and accordingly either not marrying at all, or, if they did marry, refusing to rear the children that were born, or at most one or two out of a great number, for the sake of leaving them well off or bringing them up in extravagant luxury" (Shuckburg, 1889, p. 510). Tenney Frank (classical historian): "The race of the human animal survives by means of instincts that shaped themselves for that purpose long before rational control came into play. Before our day it has only been at Greece and Rome that these impulses have had to face the obstacle of sophistication" (Frank, 1916, p. 704). Benjamin Franklin: "The greater the fashionable Expence of any Rank of People, the more cautious they are of Marriage. Therefore, Luxury should never be suffer'd to become common" (Franklin, 1775, p. 473). Solzhenitsyn: "Even biology tells us that a high degree of habitual well-being is not advantageous to a living organism. Today, well-being in the life of Western society has begun to take off its pernicious mask" (Berman, 1980, p. 7). Spengler (1928), whom the author ignores, was particularly concerned about this issue: "....there suddenly emerges into the bright light of history a phenomenon that has long been preparing itself underground and now steps forward to make an end of the drama – the sterility of civilized man. This is not something that can be grasped as a plain matter of Causality (as modern science naturally enough has tried to grasp it); it is to be understood as an essentially metaphysical turn towards death. The last man of the world-city no longer wants to live – he may cling to life as an individual, but as a type, as an aggregate, for it is a characteristic of this collective existence that it eliminates the terror of death. That which strikes the true peasant with a deep and inexplicable fear, the notion that the family and the name may be extinguished, has now lost its meaning. The continuance of the blood-relation in the visible world is no longer a duty of the blood, and the

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destiny of being the last of the line is no longer felt as a doom. Children do not happen, not because children have become impossible, but principally because intelligence at the peak of intensity can no longer find any reason for their existence...now emerges the Ibsen woman, the comrade, the heroine of a whole megalopolitan literature from Northern drama to Parisian novel. Instead of children, she has soul-conflicts; marriage is a craft-art for the achievement of 'mutual understanding'. It is all the same whether the case against children is the American lady's who would not miss a season for anything, or the Parisienne's who fears that her lover would leave her, or an Ibsen heroine's who belongs to herself — they all belong to themselves and they are all unfruitful. The same fact, in conjunction with the same arguments, is to be found in the Alexandrian, in the Roman, and, as a matter of course, in every other civilized society — and conspicuously in that in which Buddha grew up. And in Hellenism and in the nineteenth century, as in the times of Lao-Tzu and the Charvaka doctrine, there is an ethic for childless intelligences, and a literature about the inner conflicts of Nora and Nana...At this level all civilizations enter upon a state, which lasts for centuries, of appalling depopulation" (pp. 103-105).

The author does not cite Unwin (1934), who argued that absolute monogamy was necessary for urban civilization. In short, Unwin wrote that absolute monogamy is the only familial institution so far observed capable of reducing sexual opportunity to the point where sufficient energy is released to build a civilization. Whatever you may think of this argument, it should be confronted in any book on polygamy and human history. The author does not confront his argument, probably has not even heard of it, but any book on humans and Darwinian theory has to deal with the issues raised in Unwin's book.

The author does not discuss Hopkins (1983), who shows there was below replacement fertility in the Roman empire, though she does discuss a previous book by him. In fact, most Roman emperors exhorted their senators to have more

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children, but they failed. The author also does not discuss Freud (1930/1962), who predicted a positive correlation between restrained sexuality and the production of culture. But she is still young, and we can hope that her next book on differential reproduction will attack the whole problem, including civilization as you and I know it.

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BOOK REVIEWS

THE TRAGEDY OF TIBET

Eva M. Neterowicz
Council for Social & Economic Studies, Washington D.C.
ISBN 0-930690-22-2 (1989)

This fascinating and up to date publication, the latest addition to the Journal of Social, Political and Economic Studies Monograph Series, presents not only a concise history of the Tibetan cultural and political scene, the Chinese communist invasion of that country, and the attempts of the Tibetan peoples to resist Chinese efforts to destroy their cultural and political traditions, it also answers the question: To what extent has Chinese Communist policy towards minority groups changed under Teng Hsiao-ping?

Tibet has long been a romantic land of mystery whose very survival into the present century has enriched not only the lives of the Tibetan peoples, but those of all other educated peoples around the world. A nation governed – not harshly – by a theocracy of monks, with the lives of the people revolving around rich ancestral traditions and sophisticated concepts of morality, cannot but inspire the interest and sympathy of civilized people everywhere. Yet it is just exactly this Tibetan world that the Beijing-dominated Marxists have set out to destroy, publicly and deliberately. Instead of the Tibetan individual, secure in his or her family, and secure in the consciousness of being the heir to a tradition of more than a millennium of antiquity, the Chinese communist armies have been sent into Tibet to suppress the past, and replace Tibetan cultural riches by the universal slavery of the proletariat, reeducating the Tibetan children into the dogma of socialist myth, and at the same time moving elements of the surplus Chinese population into some of the richest Tibetan farmlands. More than this, they have introduced modern nuclear missiles to the "roof of the

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world," thus supplanting a tradition of peace by the latest in world-destroying weaponry.

To exemplify the extent of the cultural devastation, and the deprivation of freedom which the Tibetan peoples have suffered, Neterowicz documents the destruction of hundreds of ancient temples together with their historic, irreplaceable contents, both by the artillery of the Chinese troops and also during the period of the Chinese "cultural revolution." Where the Chinese invaders have allowed the rebuilding of certain major temples, they have worked assiduously to fill these with new "monks" fully indoctrinated not in Buddhism but in a form of socialist ideology parading under the guise of Buddhism. Thus they have sought to turn the people's reverence for Buddhism into a form of indoctrination.

Beijing has designated Tibet as an "Autonomous Region," but we see in the treatment of the Tibetan peoples and culture, and the vast influx of Chinese troops, administrators and settlers, how little autonomy "Autonomous Regions" can expect within the Chinese Marxist empire. It is also sad to note, from Neterowicz's documented account, that there has been no improvement even under the new regime which currently dominates Beijing – which is not surprising in view of the manner in which the State has treated even Chinese students.

Neterowicz's book is a useful survey of the entire Tibetan question, from the time of the early warring feudal states which preceded Buddhist theocracy, to the triumph of Buddhism (aided by the Mongols), the invasion of the Chinese communist army, failure of India, Britain and the United Nations to intervene in an useful way, the brave but pitiful attempt of the minuscule and antiquated Tibetan army to resist the massed Chinese forces, the eventual flight of the Dalai Lama, and eyewitness accounts, by Western visitors, of the subsequent massacres of unarmed civilians and monks. As Neterowicz says, it is better that others learn the truth about the Chinese communist intentions – demonstrated as they were in Tibet as late as January this year, 1989 – before they themselves come to suffer a similar fate.

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WHY AFRICA IS POOR

W. Harding le Riche
Citizens for Foreign Aid Reform,
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Four years have passed since the world press focused on famine and draught-stricken Ethiopia. Well into 1985 scenes of starving children appeared on the daily news throughout western countries. With such media exposure a massive in aid movement came into being. Governments, churches and relief organizations sought to provide aid, accompanied by rock musicians with the "We are the World" theme song and "Live Aid, Band Aid" concerts. The famine was real, but the public's appreciation of the realities which had caused the famine and hampered relief efforts was not so real.

Many areas of debate in academic and development strategy circles were opened. Observers and planners were not only interested in why the famine struck Ethiopia, but why social and economic conditions throughout Africa were deteriorating. Volumes of studies have been produced since, but from South African-born University of Toronto (Canada) Professor Emeritus W. Harding le Riche comes a small introductory treatise.

Why Africa Is Poor follows a non-ideological format. Harding le Riche is an epidemiologist (a physician who studies epidemic diseases) and he writes about African socioeconomic conditions as if he were describing the cause, symptoms, impacts and finally the cure for a deadly virus. The reader is presented with many depressing economic statistics, *i.e.* that Africa's grain production per head has dropped substantially in the period from 1967 to 1984, and that its food import bill has climbed from US $600 million in 1972 to US $5.4 billion in 1983. To le Riche economic statistics are not problems in themselves but are rather symptoms of many underlying biological problems, particularly overpopulation.

Population growth creates new demands on the rather

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fragile African environment. More people means "continuous overuse of biological systems"; forests have to be chopped down to make way for new agricultural land as well as for fuel. Therefore trees "no longer recycle mineral nutrients... the soil fertility deteriorates." Ethiopia is cited as a prime example of this form of ecological destruction.

Moreover le Riche finds considerable fault in the many schemes hatched by well-meaning planners in the First World. One such failure was a costly Canadian scheme to grow wheat in Tanzania which resulted in "severe erosion" because "fields should not be laid out in big areas as they are in Saskatchewan." Equally to blame are African governments, which are "more interested in the maintenance of their own power and in the accumulation of personal wealth" than in the welfare of their own people.

After the diagnosis le Riche ends with a prescription of possible solutions. If the African peasant were assisted in an effort to advance self-help techniques he could do much by trial and error to ameliorate his condition, hopefully in harmony with the environment. The African woman's movement is seen as a force for proper family planning and hence a curb on population growth.

Why Africa Is Poor is not a comprehensive study but Harding le Riche has written a valuable condensed introduction for the serious student.

Alex Greer

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THE TRAGEDY OF TIBET

By Eva M. Neterowicz

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Contents

Chapter 1: Tibetan Society and Culture
Chapter 2: Tibet Enters the Twentieth Century
Chapter 3: The Communists Tighten Their Control
Chapter 4: The Tragedy Escalates
Chapter 5: Tibet Faces Present Challenges

This monograph presents an account of the events leading to the Chinese invasion of Tibet, which quickly swamped the brave resistance of the small and outdated Tibetan army, but met with no resistance from the international community, despite Tibetan appeals for help to various powers, including India, Britain and the United Nations.

It explains the Chinese control over the Panchen Lama, and the initial efforts of the Dalai Lama to mitigate the evils of Chinese occupation.

It explains how the inability of the Dalai Lama to protect the Tibetan peoples and culture from the far-reaching plans of the occupiers led to the Dalai Lama's final decision to flee the country on foot, escaping through the forests and mountain ranges to India, escorted only by a small detachment of loyal Tibetan guards and his closest advisors.

The extent of Chinese acts of oppression is described, and evidence is introduced to support the charges that Peking plans to use Tibet as an area for colonial resettlement of the excess Chinese mainland population. The various revolts of the Tibetan peoples are listed, and eyewitness accounts given by Western visitors of the savage reaction by Chinese troops and police are cited. Historic monasteries containing priceless antique treasures were shelled by the Chinese miliary, and Tibet's unique cultural history was particularly targeted for destruction during the so-called Cultural Revolution.

The author notes the attempts made by Peking since the cultural revolution to rebuild some monasteries, but to replace the existing Buddhist monks by a new breed of monks preaching a form of communism under the guise of Buddhism. The continued attempts of the monks and the peoples to retain their sense of Tibetan identity and culture are traced up to January 1989, and the unrelenting and vicious suppression of all and every public demonstration by the occupying military is recorded.

The text is accompanied by a useful map of Greater Tibet, showing the invasion route taken by the Chinese army, and areas of Tibet which have been expropriated into other provinces of the People's Republic of China as well as the relatively small area which is today regard as the 'province' of Tibet. As an appendix, the Monograph includes two informative resolutions of the U.S. Congress, documenting the misdeeds of the PRC military and government, and calling freedom and self-determination for the Tibetan people.

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